The money market

Shipping Corp subsidiary helps plug profit leaks

A LIGHTNING raid on the Canadian money market is cutting the Shipping Corporation's interest payments.

In the last financial report, for the five months to the end of August 1979, interest payments, exchange losses and depreciation allowances turned a $7 million "operating profit" (though few accountants would agree interest and depreciation are below-the-line charges) into a net "deficit" of $4,875,000.

At that time, term loans totalled $94.5 million, 60 per cent of them in the form of Eurodollar loans. And in five months interest charges had amounted to $6.5 million.

Unrealised exchange losses carved another $3 million from profits.

More recently, the corporation has had to pay up to 20 per cent on American dollar loans.

The corporation has had the Canadian capital market under surveillance for some time and only a change in the law 18 months ago stopped an earlier raid.

Early this year the law was changed again, and the corporation sailed into use provisions designed mainly for the use of domestic companies.

To gain the benefits, the corporation set up a Canadian subsidary, the Shipping Corporation of New Zealand (Canada) Ltd, which then issued $50 million in preference shares yielding a tax free 8.76 per cent.

Basically, the corporation is taking advantage of a tax regulation that allows dividends to be paid in the form of interest, but because the rate can change depending on the "surplus" the company makes, the payment is regarded as a dividend.

Because the Canadian subsidary is unlikely to make a profit — its main purpose is to lend money to its parent — dividends can be distributed tax-free.

To complete the arrangement, the corporation borrows the money through a shelter company in Singapore to ensure that the Canadian company cannot inadvertently make taxable profit and to satisfy other requirements for offshore companies.

For the corporation, the raid — which is how the Canadian Government is understood to view the operation — is a success.

It provides $50 million of cheap finance at a cost several points below the rates being paid on American dollars, Japanese yen and the British pound (which vary between [illegible] and 14 per cent).

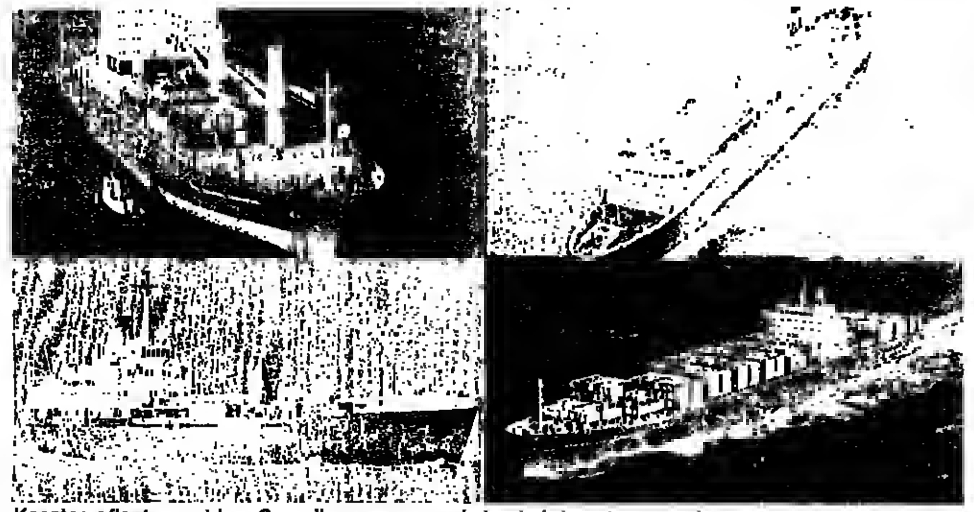
Financing its assets is the corporation's main problem. Like Air New Zealand, it has Government guarantees to maintain a very high gearing beyond that normally accepted by international financiers.

To relieve the burden of crippling interest payments, the corporation is already sailing its latest acquisition, the New Zealand Caribbean, on a leaseback agreement.

The next financial report should show a substantial reduction in the Eurodollar debt, although the full benefits are unlikely to be apparent until the following financial year.

The balance sheet should show the corporation's assets of $160 million to be financed by paid up share capital of about $30 million plus the long-term Canadian debt of $50 million (less exchange differences) with a subsequent impact on profitability.

Canadians are unlikely to take kindly to a repeat exercise and the corporation is looking around at other capital markets where it might find cheap capital without the high risk of fluctuating exchange rates.



Keeping afloat . . . raid on Canadian money market cuts interest payments.

Volume 10, No. 37 (Issue 402) September 29, 1980 ISSN-0110-6813

NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

80 cents

Inside

Confusion shrouds facts on electronic information firms

by Rae Mazengarb and Stephen Bell

THE information retrieval business seems to be burgeoning as several new companies set out to cash in on the new technology. But there is much uncertainty about just who is involved, the systems they will be using, the clientele they hope to serve, and the relationship among these companies.

Details of personnel and technical particulars are a jealously guarded secret.

There are hints that operators of a central information retrieval system are paying for the right to use a patented technique that was developed in the United States and is already being used there. If that is true, not even the Post Office has been kept informed of the details.

It is understood potential beneficiaries who have been looking at the system include car sales firms, real estate agents and possibly legal firms.

NBR inquiries have revealed a network of companies and inter-twining directorships involved at various stages and in different aspects of information retrieval businesses.

Apart from politically inspired speculation about who is involved, there is definitional confusion surrounding viewdata and similar communication systems.

The concept involved in the new project is electronic information retrieval on screen, and the latest proposals do not involve viewdata, as the fledgling company at the centre of the mystery, Newztel News Agency Ltd, has stated.

In a press release, general manager Peter Acland said the Newztel system "was based on an entirely separate concept from that proposed by viewdata or any other scheme".

Newztel News Agency Ltd was registered in Wellington in June. Shareholders are listed as lawyer John Dean (667 $1 shares) and chartered accountant Paul Barnaby (333 $1 shares).

Acland describes Newztel simply as an independent news and current information service.

Opposition MPs have tried to gain political mileage from an early — and unconfirmed — suggestion that four people with close Government "connections" were "about to climb into the (viewdata) ring".

According to Parliamentary rumour, the venture involves Prime Ministerial press secretary Gerry Symmans, *Auckland Star* assistant editor Ian Templeton and National Party general director Barrie Leay, as well as former Prime Ministerial press secretary Acland.

Leay declined to confirm or deny any involvement or interest in Newztel or Auckland-based Telpac Systems Ltd.

It was of no concern to anyone what he chose to invest his savings in, he said: "It's like asking if I am an investor in Fourth Estate."

Suggestions that Symmns is Acland's partner in the Newztel venture have not been confirmed.

Public records reveal the involvement of no senior member of the National Party or a journalist with "very close links to Cabinet", as Opposition Leader Bill Rowling told Parliament during a debate on the Post Office estimates recently.

Templeton has firmly indicated that he is not intending to join the business. *NBR* understands he had been approached by Newztel interests.

But Acland insisted "I'm the only one involved."

NBR investigations point to the possible involvement with Newztel of Auckland lawyer Bruce Grierson, Mervin Lawlor (past managing director of the ill-fated Grazing and Export Meat Company Limited, known as Gemco) and Aucklander C R Cursbie.

They are directors of two companies incorporated in Auckland about the time Newztel was registered in Wellington.

Company records show that Telpac Systems Ltd (a private company with $300 capital in $1 shares) and Commercial and Educational Information Bureau (a private company with registered capital of $24,000 in $1 shares), were registered simultaneously in Auckland late June. Both have registered offices at 507 Lake Road Takapuna.

CEIB's two shareholders are Corsbie and Waiata Estates Ltd, each holding equal shares.

The company aims to deal in electronic or electrical equipment and computers.

Telpac's shareholders are also Corsbie and Waiata Estates.

Waiata Estates Limited, a company incorporated in 1964 to acquire land and turn it to account, had as its original shareholders H M Horton (managing director of Wilson and Horton, Auckland publishers), M M Meredith and M C M Cormack (directors of Blue Skys Advertising Limited), D G Walton and M J Yock (directors of Allan E Brooker Ltd, manufacturers and wholesalers of Auckland).

Recent changes in shareholdings make it difficult to ascertain who now owns the company.

Asked about the development of a software package for a home/business retrieval system, Lawlor said he was consultant to a group involved in the batching of information.

The system did not use mini-computers, he said. Rather, it was for any micro-system or any other on-line system.

Lawlor referred us to chairman of directors Grierson, who said he was doing a project for the Law Society. "I've been acting as a consultant."

He confirmed he had been "talking" to Hewlett Packard, but said: "We're not in the home retrieval business."

Grierson confirmed he was acting in the capacity of chairman of Lawlor's companies, but said he was doing a straight legal job. Information, therefore, was "confidential and privileged to (his) clients", he said.

Two companies were involved. Grierson declined to name them.

There had been suggestions that not all those involved lived in the Auckland area. Grierson would not comment.

Meanwhile at least one other company is known to be interested in a system which will link micro-computers into an information retrieval network, providing simultaneous business information, local computer ability and electronic communication between users.

CED Distributors, an agent for the Apple micro-computer, has entertained at least three proposals to set up:

- A real estate information base;
- A database for car sales;
- A legal information service.

None of those who made approaches finally decided to use the Apple. There are indications they may be looking at a cheaper and less sophisticated alternative.

The company involved in providing real estate information, Wendell & Associates, will be using software from *Timeshare Systems Ltd* and their Hewlett-Packard 3000s as information storage mainframes in the four main centres.

Timeshare Systems director Ken Nutsford confirms that Lawlor was originally involved in discussions with his company, but he has apparently bowed out. Nutsford is now negotiating directly with Wendell & Associates.

The arrangement between Wendell and Nutsford has not been finalised, but Wendell has put a large advertisement for the prospective real estate information service in the New Zealand Real Estate Agents' magazine.

Wendell said his system, Real-Corp, was based on Apple micros. The link would enable an agent to identify properties available in another town.

The system would give access to records of past sales and agents could pick up areas of high turnover. "Keeps them in touch with what the market-

Continued on Page 3

The week

PLO inspires fence sitter

NEW Zealand is to abstain from voting on the matter of PLO representation at the annual meeting of the World Bank as it doesn't favour either the American stance or the opposed position of the Third World countries.

TRADE and Industry Minister Lance Adams-Schneider announced the addition of a further list of goods for inclusion in Schedule A of the Nafta including several wood product items, carpet-joining tape, and windscreen wiper arms and blades.

THE number of Japanese tourists coming into New Zealand increased by 20 per cent in the past year.

AGRICULTURE and Fisheries Minister Duncan McIntyre's involvement in the Marginal Lands Board loan row was revealed by the Director of Marginal Lands, Thomas MacKenzie. MacKenzie alleged that McIntyre had expressed concern when the Fitzgerald loan was rejected by the board.

BULK electricity charges will go up by 9 per cent from April 1.

The business week

Andrew and Beaven Ltd reported an audited tax-paid profit of $2,015,778 for the year to June, an increase of 96.2 per cent. A final dividend of 8c is payable on November 12.

Australian National Industries Ltd reported an audited tax-paid profit of $20,174,061 for the year to June 30 ($17,535,628 last year).

John Burns and Co Ltd reported an audited tax-paid profit of $804,474 for the year to June 30 (loss of $4117 last year). A final dividend of 7.5c is payable on October 20.

Consolidated Holdings Press Ltd reported a final consolidated operating profit of $14.38 million. A final dividend of 17c is payable.

Fisher and Paykel Industries Ltd increased its shareholding in **Best-Wood Ltd,** manufacturer of wood, veneer, and vinyl convered panels from 65 per cent to 90 per cent by making a cash purchase of the shares held in Best-Wood by **Mason and Porter Ltd.**

Fountain Corporation Ltd appointed N B White to the board.

Independent Newspapers Ltd made a take-over bid worth $1,127,368 for the **Manawatu Evening Standard** bettering the $750,000 offer by **Wilson & Horton Ltd.**

David Jones Ltd appointed John Spalvins as chief executive.

Lion Breweries Ltd appointed two present associate directors, J R Beck and B C Lagan to the board to replace retiring director Sir Bernard O'Connell. B F R Scott and G E Lovelock will become associate directors.

Repco Ltd reported an audited tax-paid profit of $A17,302,000 for the year to June 30 ($A22,017,000 last year). A final dividend of 4.5c is payable on September 30.

J E Watson and Co Ltd reported an audited tax-paid profit of $730,000 for the year to June 30, an increase of 16.7 per cent. An ordinory dividend of 20 per cent is payable.

The week ahead

MONDAY: Deputy Prime Minister Brian Talboys leaves for two weeks of EEC talks.

Seventeenth annual Nafta inter-industry talks in Hobart.

Workshops on "Competency-based assessment of key job positions, and "performance planning development and appraisal" run by Carlos Donatelli, director of the Wickes Corporation in California, in Wellington.

TUESDAY: Travel Agents Association convention in Invercargill.

Commerce and Energy select committee looks at the Cinematographs Films Amendment Bill.

Lands and Agriculture Select Committee looks at the National Parks Bill and the Racing Amendment Bill.

Statutes Revision Committee looks at the Misuse of Drugs Amendment Bill and the Crimes Bill.

WEDNESDAY: Commerce and Energy Select Committee looks at the Cinematographs Films Amendment Bill.

Labour and Education Select Committee looks at the Factories and Commercial Premises Bill.

Lands and Agriculture Select Committee looks at the National Parks Bill.

Local Bills Select Committee looks at the Racing Amendment Bill.

Public Expenditure Committee hearing.

Statutes Revision committee looks at Rock Lobster Regulations Bill, the Economic Stabilisation Regulation Bill and the Gleneagles Agreement.

Exchange rates

As at September 24 1980 $1 NZ is worth:

United States	.9749
Britain	.4066
Canada	[illegible]
Australia	[illegible]
Fiji	[illegible]
Austria	[illegible]
Belgium	[illegible]
China	[illegible]
Denmark	[illegible]
France	[illegible]
Greece	[illegible]
Hong Kong	[illegible]
India	[illegible]
Ireland	[illegible]
Italy	[illegible]
Japan	[illegible]
Malaysia	[illegible]
Netherlands	[illegible]
New Caledonia & Tahiti	[illegible]
Norway	[illegible]
Pakistan	[illegible]
Portugal	[illegible]
Singapore	[illegible]
South Africa	[illegible]
Spain	[illegible]
Sweden	[illegible]

Correction

IN last week's *National Business Review*, our front-page article speculated on changes in the Human Rights Commission and the possible [illegible] commissioner Pat Downey's resigning.

A paragraph noting that [illegible] had talked with a "Parliamentary source" was inadvertently omitted. It would have appeared to [illegible] that Downey — and [illegible] source — used the words "I've heard things along those lines, but not that he has tendered his resignation."

Was that a suggestion [illegible] Downey had been asked to resign?

"I'm not sure if that is what [illegible] am suggesting."

Downey of course said no such thing when we interviewed him.

Viewdata committee didn't consider newcomers

THE information retrieval networks of the new breed of electronic communications companies will not pass through the suggested Post Office viewdata switch. And they will use micro-computers in place of the modified television sets used for viewdata.

Their plans have come as a surprise to many in the electronics and communications industries.

The Communications Advisory Council — asked by the Government to look into the viewdata question earlier this year — received only two specific proposals.

In its report, the council noted that, in addition, several organisations had "expressed an interest in formulating proposals for the service . . . but none submitted specific proposals for consideration . . ."

The two proposals which were received — from Videotex Systems Ltd (a Fourth Estate subsidiary) and the CBL consortium (including Wilson and Horton, the Christchurch Press, INL and Fisher and Paykel) — were business-oriented. They proposed using viewdata systems based on the British Post Office's Prestel system and envisaged local manufacturing involvement in the production of adaptors for television receivers, according to the report.

The council has refused to say if any other proposals have been submitted since the report was published.

The Newtzel News Agency Ltd and other contenders — *NBR* understands — are hoping to avoid the Post Office's central viewdata equipment.

Instead, they will use their own communications networks, leasing only communications lines from the Post Office.

The system envisages the use of micro-computers, equipped with visual display units, as a direct means of servicing individual clients without imposing unnecessary, or uneconomic burdens on existing facilities, according to Newztel general manager Peter Acland.

A network based on the system, particularly if it offered several kinds of information to micro-computer users, would encourage business people to acquire their own micro-computers, even with a $4500 price tag. To someone already operating a micro, of course, a network would extend the range of applications tremendously at the cost only of the information provider's fee and the bill for telephone usage.

The aspirations of the competing groups are causing political confusion simply because the politicians are finding aspects of the technology difficult to grasp. Moreover, the politicians are concerned about possible pressure from the public while attempting to balance the objectives of the various promoters, the Post Office and union pressures.

The Prime Minister's Department has assigned transport and communications adviser David Young to advise on the competing claims of those interested.

The industry is still in its formative stages but some estimates suggest that within the next five to 10 years, the viewdata industry internationally could be worth some $10 billion in hardware and software sales.

The week

New look DFC to accommodate financing projects

by Allan Parker

THE Development Finance Corporation will soon announce a major internal reorganisation designed to reflect its expected increased involvement in the financing of New Zealand's major development projects over the next decade.

In effect, the corporation will be split into two divisions:

- The first to handle the big money end of the market;
- The second to look after the smaller business sector.

The proposal will go before the DFC board when it meets in Wellington next week. The board is expected to approve the plan, which will allow the corporation to announce the re-organisation publicly in November.

Corporation staff are unable to discuss the moves because the plan has not yet received formal board approval.

NBR understands the restructuring has been brought about by the increasingly sophisticated nature and wider variety of projects with which it has become involved in recent years.

Also, the growing number of large resource-based projects planned for the 1980s has forced a re-examination of the way in which the corporation handles applications for financing.

Larger applications — basically over $200,000 — will now be handled by one division — Corporate Finance — which will have offices in Auckland, Wellington and Christchurch.

The second division will handle applications by companies employing 50 or fewer with annual sales below $2 million.

The Small Business Agency, previously run as a separate division within the corporation, will be administered by the new division, which will have offices in Auckland, Hamilton, Wellington and Christchurch. SBA personnel will still have separate offices in Tauranga, Palmerston North and Dunedin.

Most of the Government-funded programmes run by the corporation will fall within the small business division's area of responsibility which includes the Applied Technology Programme, export suspensory loans and regional development finance.

But applications for more than $100,000 under these programmes will be assessed by DFC staff to determine which division should handle them. Similarly, if a large company applies for less than $200,000, or a small firm wants more than that, individual assessments will be made.

Basically, the corporation's intention is to streamline its operations.

Previously all clients have been investigated in the same way. But, as more applications for large project financing have come in, the corporation has recognised the need for different treatment.

The large applications will receive full treatment by corporation staff. Those dealing with the smaller end of the market will rely less on exhaustive financial analysis of proposals and make more allowance for "gut feeling", including the entrepreneurial characteristics of the applicant.

The rationale behind the plan is that the diversification of the corporation into such areas as contract bonding and tourist accommodation has brought about a need for greater specialisation within the internal structure.

The corporation still expects to maintain its profitability. But as the bulk of the administration and workload will fall on the division handling smaller businesses (which, by their nature, offer less opportunity for large financial returns), the "big money end" will be expected to provide the bulk of the profitability.

The corporation is not expecting any flak from other financial institutions. It will maintain its emphasis on project financing and is not planning a move into the working capital market, supplied by the traditional finance houses.

Its continuing emphasis on project and higher-risk financing, it hopes, will defuse any possible criticism of Government interference in the market-place.

Its historical role has been as a development bank, filling gaps normally not handled by traditional sources of finance. It has developed a special liaison role with those other finance sources by taking lead underwriting roles in loan issues.

To a certain extent, the corporation is caught between the devil and the deep blue sea. If it sits back and takes an unadventurous stance it will be seen as an ineffectual bureaucracy.

And if it moves more into high-risk ventures the critics will say it can only do so because it is Government-subsidised.

Given its statutory role as a profit-making promoter of industry, it reasons the latter is easier to live with. And, by streamlining its operations under the new system, it hopes clients will find it easier to deal with when applying for project finance.

Continued from Page 1

place is doing," Wendell said.

He envisages a facility in the future to produce a picture of the property on-screen — even a movie. That would save petrol and time in going to look at property.

Apple has a graphics unit, which would allow an estate agent to generate plans and views of properties not yet built, and modify them to the client's taste, Wendell said.

Wendell claims that Telpac is purely an information broadcast system, allowing minimal input by the user. Customers interested in using Telpac, he says, include a firm dealing in car and boat rentals.

Wrightsons, he claims, already has an information system. All its car-yards are on a leased line network and the system is ready to go.

Wendell denied he had spoken to any of the people mentioned in newspaper stories or those described by Rowling. But he had spoken to the Telpac people.

He pointed out there was no contractual basis for continuing to use the people "we're using at the moment" when it came to the more sophisticated system.

"We might even use viewdata if the Post Office gets it operating well enough," Wendell told *NBR*.

Asked if he was involved in the organisation of the system, not just as user, Wendell said it was his idea. The computer was only one of the tools for the total system, he said.

Just what relationship — if any — there is between Telpac and Newztel, those involved are not saying.

Acland did not deny his company was linked in some way to Telpac. He said that discussions had been held between both companies.

NZ FOREST PRODUCTS LIMITED

Points from the address by Chairman Mr L N Ross to the 44th Annual General Meeting of the Company at Auckland on 4th September, 1980.

In brief 1979/80 Highlights

- Record levels of sales and profit achieved through Kinleith mills operated only nine months due to strike.
- Net profit of $29.2 million — $4 million ahead of the previous profit record of 1977 — but could have exceeded $40 million.
- Annual dividend of 18.5%.

Sales 28% higher to July 31 this year compared to first four months of previous year and profit also higher.

Acquisition of a major portion of assets of timber and hardware retailer MSD-Speirs Limited, Marton, and of timber importer and agent Moore le Messurier Pty Limited, Sydney.

Feasibility studies into development of paper coating mill at Marsden Point, Whangarei.

Longer term Company prospects are good.

Survey of Results

Last year will be remembered not for the results which were achieved, good as these were, but for what might have been achieved had the Company's Kinleith mills operated to their full potential. The record levels of sales and profit were achieved with the Kinleith pulp and paper mills, sawmills and plywood mill operating for only nine months of the year. The strike which closed these units for three months is now history and no good purpose can be served by dwelling on it again today. It is sufficient to repeat the comment made in the Directors' Report that the events at Kinleith from January to March 1980 have illustrated only too clearly the pressing need for a better way of resolving industrial differences.

The net profit of $29.2 million which was achieved was almost $4 million ahead of the previous record profit recorded in 1977. It could have exceeded $40 million. While disappointing, the result attained does demonstrate the potential of the company to achieve much better results than have been reported in recent years. The Company's aim is to achieve that potential.

The financial position of the company is strong. At the year end the proprietary ratio was 53% and each $1 share had a tangible asset backing at book value of $4.05; while the Current Asset/Current Liability ratio was a healthy 2:1.

Current Position

The current year has started well. To the end of July sales were almost 28% higher than in the first four months of the previous year. Profit also was ahead of that recorded to the end of July 1979.

While in some cases the plants affected by the strike have taken longer to return to full production than the Company hoped, output from the Kinleith mills is in most instances now back to the levels achieved in the second and third quarters of the last financial year.

Stocks of paper, timber and plywood both in company mills and in customers' stores are now substantially restored to normal operating levels. Export markets are again being supplied with pulp and paper.

The local building industry has not improved in recent months and while orders for timber remain at a satisfactory level the demand for wallboard products is at a low ebb. In order to maintain production at acceptable levels in the wallboard mills additional emphasis is being placed on increasing exports to those markets where an acceptable return can be obtained.

Outlook

In the Annual Report the Directors have indicated that given steady uninterrupted production and the continuation of the level of demand then existing the Company should, this year, be able to confirm the potential indicated but not achieved in the previous financial year.

The Company has no reason to doubt that the high levels of production now being attained in the major units will continue for the remainder of the year.

The demand for products in export markets remains high. There is some evidence that the effects of the current recession in the United States could be reflected more widely and result in pressure of excess American and Canadian supply of wood products, especially in the Pacific area which provides important markets for NZFP. In the last two months some quantities of paper and timber which would normally be sold in the United States have provided increased competition in export markets. However, at this stage prices for pulp and paper have generally been maintained. Some decrease in paper prices could follow later in the current financial year if supply continues to exceed demand in these export markets.

There is little reason at present to expect a reduction in the level of local demand for most NZFP products. Building products could be an exception, but the company's sales promotion is aimed at holding New Zealand sales at present levels.

In the longer term the outlook for New Zealand and for the company is good. Within the present decade major developments are planned for the utilisation of the country's energy resources. To implement the planned programme people will be required and building will increase in both domestic and commercial areas. Looking further ahead, by 1990 large areas of commercial exotic forest will have matured and will be available for utilisation. The Company is planning now to play a full part in developing the future potential of forest and other natural resources.

New Subsidiaries

During the last financial year NZFP acquired a major portion of the assets of MSD-Speirs Limited. The assimilation of this company and its people into the Group has proceeded smoothly and M.S.D-Speirs Limited is now making a good contribution to Group profit. This company is also providing merchandising outlets for Company products in the lower half of the North Island.

Moore le Messurier Pty Limited in Sydney is also a recent acquisition which, with its importation and distribution activities, will serve to develop further the sale of timber and other NZFP products in New South Wales.

The acquisition of the 50% interest previously held by Henderson & Pollard Limited in N.Z. Particle Board Limited may have raised questions in the minds of some shareholders, especially as it is generally known that this company has a history of losses in the last few years.

N.Z. Particle Board Limited has been reorganised to operate more effectively within the level of New Zealand demand for particle board, while unprofitable export and other sales which adversely affected the results have been eliminated and the company is now giving every indication of becoming a useful member of the NZFP Group.

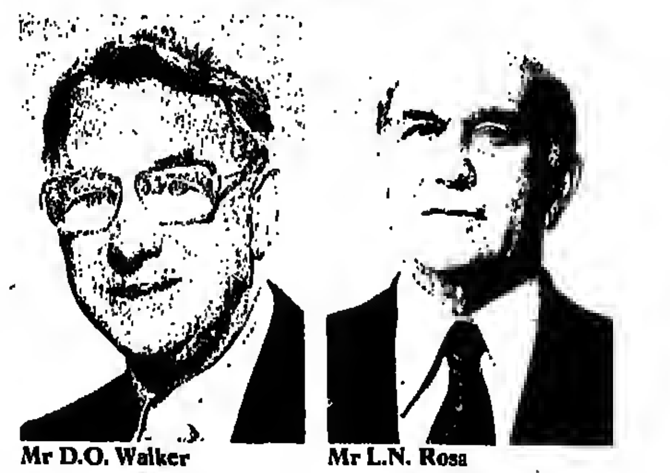
Acquisition of Interest in U.E.B. Industries Limited

Shareholders in U.E.B Industries Limited will have received the offer from NZFP to acquire a portion of their UEB ordinary stock units and specified preference shares. The offer closed on September 24th.

So far the response to the offer has been good. The Company is confident that it will succeed and that the resultant closer association with UEB and NZFP will provide a very strong bond between two substantial New Zealand companies with a common philosophy on a number of matters, especially in the use of local resources, product development and export trading.

The acquisition terms were negotiated in a friendly and constructive manner between the Boards of the two companies, and the transaction has now been recorded the approval of the Examiner of Trade Practices.

At the Annual General Meeting of U.E.B. Industries Limited the Chairman referred to the re-examination which is now proceeding of the proposed paper machine announced earlier by UEB. NZFP is assisting in this re-examination and it seems likely that the original proposal will be modified.



Mr D.O. Walker Mr L.N. Ross

Recent Developments

The Company is proceeding with feasibility studies for the development of a pulp and paper mill and coating plant to be located at Marsden Point near Whangarei. The timing of this project will depend on the availability of wood from Government and private sources to supplement the Company's wood supplies until these become adequate to meet mill requirements. Marketing arrangements in Japan and in Australia are under development. It is expected that technical assistance will be secured from both sources. If feasibility studies are satisfactory the target date for start-up is about 1985.

The commercial plant to produce an industrial adhesive from pine bark is now well on the way to completion at Kinleith and should be in production by the end of this calendar year. The product will be marketed under the trade name of "Tannaphen" and it will be used in the plywood and particle board industries.

A new office and warehouse for B.J. Ball (NZ) Limited is in the course of construction in Church Street, Penrose, Auckland.

The pipe line for natural gas supply to the Kinleith mills has been laid to the site. Work is now proceeding to install feeder pipes to the utilising units and to make the necessary alterations to boilers and other plant. Gas will progressively replace oil fuel from September this year.

The greater use of recycled waste paper and cardboard is being sought as an alternative to the use of kraft pulp as a furnish for a number of grades of paper and boards. Every endeavour is being made to ensure that as much waste material as possible is obtained for re-use in New Zealand instead of for export or destruction.

The development of new products is receiving constant attention by the New Product Development Department.

While still basing its forward planning substantially on the growth of trees and the utilisation of the resources of NZFP forests the Company is looking to many other fields which could provide profitable avenues for investment and diversification.

The Company is co-operating with overseas interests in making a proposal to the Fiji Pine Commission for the utilisation of the fairly large volume of maturing wood in Fiji. It is expected that the proposal will be satisfactory as a commercial venture and that it will also assist in the development of forestry and of employment in Fiji.

Dividends

A motion to be put to the meeting will provide for a distribution to be made from the Share Premium Account in lieu of normal dividends payable from profit. If approved this will mean that for the second consecutive year full annual dividends will have been paid from this source to all who have not elected for various reasons, to receive dividends from profit sources. (A final dividend of 10 cents per share was approved by the meeting making a total payment for the year of 18.5 cents per share).

In recommending payment from this capital source the Directors are adhering to their policy of providing as many shareholders as possible with tax free dividends and that at the earliest opportunity.

Of course, this source of distribution is not limitless and the Directors have been asked for how long payments of tax free dividends can continue. At the moment all that can be said with certainty is that the 1981 interim dividend payable in February/March next year can be paid from sources which are regarded as capital in nature and therefore non-taxable in the hands of individual shareholders resident in New Zealand and in some overseas countries.

It will not have escaped the notice of shareholders that the Directors have this year increased the dividend/distribution to an extent that keeps just ahead of the inflation rate. The total dividend at 18.5 cents per share absorbs $13,211,000 and is covered 2.2 times by tax paid profit.

Finance

Mention is made in the Annual Report of the need for further borrowings to refinance maturing loans and to meet cash flow. In all current loans totalling $31 million will become due for repayment this year and a further approximately $16 million will be required for minor projects, plant replacement and improvements, purchase of the interest in U.E.B. Industries Limited and additional working capital.

Arrangements have been made for a revolving bank loan for US$25 million to become available this month. Preparations are in hand for the raising of a similar sum by way of a further issue of fixed interest Eurobonds. The issue will be made at the most opportune time.

NZFP People

While the Company has had its problems it is pleasing that in recent months stable industrial relations have been maintained and as indicated earlier the level of output from most of the mills is at an acceptable level.

We hope that plans now being developed for this year's and for future wage negotiations in the pulp and paper industry will be on an industry rather than a company basis and will provide a more acceptable approach from the Company's point of view and that of employees.

With inflation continuing at a high level it is inevitable that wage rates will also rise. This can be accepted, but only if the productivity of New Zealand industries can also be increased. New Zealand industry in general is capable of a much better productivity performance than has been achieved in recent years.

New Zealand is actively seeking to increase its exports. The markets in which exporting companies such as NZFP seek to sell their products are very price conscious and it is the buyer who determines the price. To compete the seller must be able to match the prices sought by his competitors and still make a profit. If costs rise to the point where this cannot be done the market will be lost. This is a fact of life which all New Zealanders must realise if industries are to remain in business and provide positions for the growing work force.

Conclusion

The Board is certainly not yet satisfied that an adequate return is being achieved on shareholders' funds. Progress is being made and last year saw the overall return on funds increased from 8.4% to 10.1%, but this still falls short of the target. The efforts of Board and Management are being directed towards lifting profit to a level more acceptable to the Board and to shareholders.

By corporate planning techniques target levels of performance have been established for each of our operations based on realistic achievable returns on the funds being utilised in each sector. In some areas the targets have been achieved. In others further improvement is being sought. This approach enables evaluation of existing divisions and indicates new avenues for investment. The Board is constantly striving to extend and diversify operations into areas which will widen and strengthen the Company's base.

It is recognised that the Company has an important role to play not only in the economy of New Zealand but also in making the country a better place in which to live. This responsibility is accepted and is being demonstrated in many ways.

In short NZFP is seeking to combine the abilities of its employees and the resources of New Zealand with the funds provided by shareholders and financiers with mutual benefit to shareholders, investors and employees and to do this for the ultimate benefit of New Zealand.

Full copies of the address by the Chairman Mr L N Ross to the Annual General Meeting may be obtained from the Public Relations Department, NZ Forest Products Limited, Private Bag, Auckland.

The week

Franchise operators tee up sale of latest product

by Warren Berryman

A PRODUCT which some promotional literature suggests is a hangover remedy is about to be marketed by an Auckland-based coterie of franchise merchants.

The promotors have previously operated under a number of company names to sell distribution rights throughout the country for a variety of products.

Franchises for Alko Frei are being offered by Alko Frei NZ Ltd. Directors of the company are listed as Dennis O'Flaherty and Ted Carthew and its consultant is Allan Cowan.

O'Flaherty and Carthew were directors of Helia Health Products Ltd, a franchising operation selling phials of vitamin pills. Helia Health Products went into liquidation.

The joint liquidators of Helia Health Products are Allan Cowan and an Auckland lawyer, Roger Chambers.

Chambers and Cowan are involved in Kindyland Holdings Ltd, of Christchurch which early this year advertised a $1000 sales course with guaranteed earnings. Some of those who paid $1000 each claim they did not get the promised training, nor did they get their money back.

Cowan is the governing director and Chambers the company secretary. Both are listed as shareholders.

Chambers said he had nothing to do with the day-to-day running of Kindyland.

This was handled by Chambers, he said.

Kindyland also operated Julien Cosmetique, which closed early this year.

The offices of Julien Cosmetique were the source of several other franchise deals, such as Protec Products, Perfum du Pacifique, Butterfly Cosmetic Club, Astro Seents, and Bowser Bar Services.

After being involved in two periodicals, *Censored* and the *National Informer*, Cowan became involved in several franchise operations.

The one that received the most publicity, perhaps, was North American Business Systems (A'sia) Ltd, a vending machine franchise operation.

Cowan is now helping to promote Alko Frei.

Franchises are being offered on essentially the same terms as those previously sold for Helia Health Products. The franchisee buys exclusive rights to an area and some supplies of product.

An area the size of Christchurch, for example, would cost the franchisee about $30,000.

The sachets of Alko Frei, packed in stands, are placed near the cash registers in dairies, bars and clubs. The owner of the establishment takes a cut from sales, the franchisee takes a cut, and another cut goes to Alko Frei NZ Ltd.

The sachets retail for $1.25 each. According to the label on the sachets, Alko Frei contains 95 per cent fructose, a sugar extracted from fruit or cane sugar.

Roche Products Ltd, the sole New Zealand importer of fructose, sells the product for $2.60 a kilo. That means the fructose in each $1.25 sachet containing 32 grams nett could be bought for 8.1 cents.

According to the claims on the Alko Frei sachets, fructose has the property of increasing the rate at which alcohol is metabolised in the human system. This, in effect reduces the blood alcohol level in the body over a period of approximately 40 minutes, but the time and degree of effect varies with individuals.

Alko Frei appears to have taken much of its medical information from a fructose brochure it obtained from Roche.

But Roche doesn't claim that fructose is a cure for a hangover or a way to beat the breathalyser. Roche will say that, for some people, fructose does reduce the detrimental effects of a heavy night's drinking. But how it does this, and why it works for some people and not others, is not known.

According to Cowan: "For some people it works. For me, it makes me puke. But, ah, don't quote me on that."

O'Flaherty said Cowan was *au fait* with what was going on. "Anything he says, I'm quite prepared to go along with."

Asked if he had any scientific basis for Alko Frei's claims, O'Flaherty said: "Hold on, we don't make any specific claims for it, except that it can make you feel better when you've had too much to drink . . . It has no effect on a breathalyser test at all."

After interviewing Cowan by phone, *NBR* reporter Warren Berryman met Cowan in an Auckland Hotel. Cowan tried to extract the names of informants from Berryman.

Then he tried another tack. He was aware that Television One's "Fair Go" team was inquiring into Alko Frei and his franchise operations and he wanted some favourable publicity to offset any damage from the programme.

He offered to get any 100 people chosen by the reporter drunk at Alko Frie's expense, give each drunk a drink of Alko Frei, and poll the responses. This, said Cowan, would make a front-page story. The offer was declined on the grounds that such a test would not be sufficiently scientific.

Franchisees were told the product would be ready for a nationwide launch in September.

Franchisees were told that Alko Frei was test-marketed in the Bay of Plenty and that the product had "gone off like a rocket".

Some Tauranga and Mount Maunganui publicans who had Frei on their counters say it had not sold.

Alko Frei will have to move quickly to meet the promised September launch date. *NBR* understands Roche Products has received an order for fructose from Alko Frei but is waiting for payment before releasing any product.

Meanwhile franchisees who paid about $10,000 each for their exclusive areas may have cause for concern.

One has got back some of his money.

The Alko Frei franchise contract contains a no-inducement clause at the end of a page of fine print. It states: "The customer acknowledges that no inducement has been made to him by the company or any agent of the company and that he enters into this order solely in reliance upon his own judgement and that this order constitutes a complete sale and purchase of the products and services hereunder and neither the exclusive distribution rights nor any factor whatsoever constitute nor imply a sale or return agreement."

By signing this, franchisees concede that Alko Frei did not talk them into the deal.

But franchisees claim some Alko Frei franchise salesmen made glowing claims about the efficacy of Alko Frei which are not consistent with the honest claim made by Cowan and O'Flaherty to "Fair Go" and *NBR*.

O'Flaherty said Alko Frei would be promoted with a national advertising campaign.

John Burn welshes on tax-free payout promise

JOHN Burns and Company Ltd is welshing on its promise to shareholders made last year when it was fighting off the takeover bid from Ron Brierley's Engineering Holding Ltd.

When Brierley made a $1.70 a share offer for the asset-rich but unspectacular company, John Burns directors thwarted the bid by offering to strip the assets and hand the money back to shareholders.

Burns directors promised a 50 cent tax free dividend in July 1979, a 50 cent tax-free capital reduction in March 1980 and a 75 per cent tax-free payment next December.

The company stripped off assets it had apparently forgotten and handed $2.5 million back to shareholders. Staff was cut from 650 to about 500 employees without seriously damaging the company's trading profits.

But John Burns does not want to pay out the final 75 cents, which would cost it $2 million.

Instead, it offers shareholders a three for four bonus issue.

Before the announcement, John Burns shares were going for about $1.85. Four shares were worth $7.40 and there was the promise of 75 cents a share, or $3 for the four shares, in December.

Now the promised 75 cents will not be paid.

Following the bonus issue announcement the share prices tumbled. It is likely they will level out at about $1 each. So four shares — becoming seven with the three for four bonus issue — will probably be worth about $7 versus the previous $7.40, plus the promise of $3.

John Burns arranged a pleasant press conference with journalists to announce the move. Directors expected some hard questions. But after a few beers the questions lacked penetration.

The market was more critical. John Burns shares fell 27 cents the day after the announcement.

Editorial

ENERGY Minister Bill Birch had only just returned from an overseas trip, so we'll be gracious enough to concede it might have been jet-lag that contributed to his outburst against the acclimatisation societies and their newspaper advertisements challenging the smelter developments in which he and his Government place so much faith. Whatever the reason, he appeared to be excessively churlish in sending out his staff to find out if taxpayers' money goes into the societies.

The societies had acted irresponsibly and the Government had a duty to ensure that taxpayers' funds were used properly, he explained (and taxpayers who might be bothered about the millions they will be spending on Birch's dams should take some wry satisfaction from knowing that the Minister does think about his duty to them).

And, of course, he spelled it out again that he is absolutely satisfied that the smelter plans provide an opportunity for New Zealand to pull itself up economically. Indeed, there would be no growth unless the country was prepared to use its resources the way the Government is moving (an assertion open to all sorts of rebuttal).

The number of experts who doubted the value of the smelter plans was diminishing, Birch went on (another suspect assertion; rather, the expert critics are keeping their heads down to avoid the personal flak that can fly around as a substitute for reasoned argument in the aluminium debate).

Birch grandly insisted that the third potline at Tiwai Point plus the Fletcher smelter, the Taranaki methanol and synthetic petrol plans and the Glenbrook steel mill expansion would collectively save or raise enough overseas funds to wipe out the country's balance of payments deficit. So sing Hallelujah and be led to the Promised Land (unless you want to know what economic assumptions Birch is making, when the elimination of the deficit will take effect, whether it will be a permanent or temporary effect, and, even if it happens, what will be the unemployment rate).

Of course, you might wonder why you should heed Birch but not Associate Finance Minister Derek Quigley, who has conceded that there are obvious risks in embarking on large-scale development projects. For example, the country could finish up producing a series of products which will be more expensive than comparable imports, he has said.

More significantly, Quigley acknowledges that the public might reject the process of structural change taking place, and has declared his belief that it would be a major election issue next year.

The political implications in fact became apparent in the acclimatisation society advertising. It is a sign that what once were gut feelings among the doubtful are becoming overt expressions of concern about the second smelter; the acclimatisation people are worried about their fishing, for example — and the Government can not afford to under-estimate them or what they represent.

Opposition to the smelter is beginning to crystalise. What the Government perceived would be an election-winning project is turning sour.

The Government might reflect on the prospect of history repeating itself. In the 1960s, a strong environmental movement emerged to fight the Manapouri project and caught both major parties — committed to Comalco — off guard. Ron McLean quietly and effectively pulled together the disparate elements concerned about lake-raising and some 300,000 people made clear they wanted to save Manapouri.

Whether the project will make or lose big sums of money, is largely academic to people who will respond rather to a slogan that starkly says: "Second smelter means nuclear power".

The political clout of those who sound the nuclear warning will put National in a spot. It will have to explain how it can have a second smelter and generate enough power (we already know that the surplus of electricity which was used to attract the smelter consortium is non-existent and that extra generating capacity must be established in a hurry).

If the Government is not going to set up nuclear generators, the nature lovers and sportsmen will reason that the necessary power must come from hydro dams; thus their trout streams will be ruined. (The only acclimatisation society branch which didn't support the anti-smelter advertisements was Manawatu, presumably because there are no rivers left to spoil in that neck of the country).

Many of the 300,000-odd environmentalists and their allies on the Manapouri issue used to find political refuge in the Values Party. But Values looks like a spent force for 1981. So where will its votes — 5 percent of the total cast in 1975 — finish up?

National is an unlikely beneficiary, having initiated the smelters and Maui company developments and enacted the "fast track" legislation. Labour supports the smelters in a watered-down version of what the Government has been advocating (no doubt conscious of the job opportunities). Its position to big energy-based projects is ambivalent, its assurances unreliable, and its policy council is divided on the question. Whatever it promises is unlikely to convince the growing number of smelter critics (who will recall a similar ambivalence on Manapouri).

Social Credit, however, is free to decide whatever policy it chooses. It could come out with a strong and unequivocal statement against the smelter and against nuclear power while advocating (as it is already doing) reforms to the political system to check executive power and freedom of information. If it has the wits, it could change its image from a conservative party to one appealing to the disaffected environmentalist and libertarian groups without necessarily eroding its traditional support (since it has made no commitment on [illegible] development that obliges it to embrace the smelter cause). Vote for us, Socred leader Bruce Beetham can say. We won't be the Government — but we might hold the balance of power and put a stop to such development.

It's just a thought — and one that Birch should consider before he sounds off against fishermen who cast votes as well as flies.

— Bob Ed[illegible]

Brockie's view

Diplomatic delicacy puts McLachlan to the fore

ONE reason Prime Minister Rob Muldoon gave for not allowing *Listener* columnist Tom Scott to join his official party overseas was that the regional Commonwealth Prime Minister's conference was in a "fairly delicate state".

And our old mate Rob, as readers well know, is pretty strong on delicacy when he dips into diplomatic waters.

While in Beijing, Muldoon said he had been misled about chairman Hua Guofeng's apparent lack of self-assurance when they first met two years ago.

"The best example I have in our country is Colin McLachlan who has the same sort of manner, but underneath it knows what he is doing," he said with all the sensitivity we know and respect.

We all know what Rob meant of course. But did the Chinese?

Dom's big drug scoop courted contempt charge

WELLINGTON'S beleagured morning newspaper, *The Dominion*, undergoing an almost daily facelift in a bid to increase circulation and credibility, had a scoop. And with marketing aims in view, it decided to put to good use a four-part series backgrounding a police and customs investigation into a cannabis importing ring.

Advertisements were placed in the Palmerston North and Hawke's Bay newspapers, radio spots were commissioned, and the *Dominion* and its sister, the *Evening Post*, proudly heralded the series.

Alas, one element had been forgotten. On the eve of publication it was discovered that those convicted had lodged an appeal. Publication — at least technically — would be a contempt of court liable to a fine and or the possible imprisonment of the editor.

It is understood there was considerable support for "publishing and be damned" in the House. But editor Ted Frost had other ideas.

The series has been "postponed" till the appeal is resolved.

NATIONAL BUSINESS REVIEW
Published by Fourth Estate Newspapers Ltd.
Managing Director: Reg Birchfield
Marketing Director: Ian F Grant
General Manager/Accountant: Stephen Underwood
Editorial:
Editor: Bob Edlin
Production: Ralph Green, Ann Taylor
News & Features:
Colin James, Rea Mazengarb, Stephen Ball, Jack Hodder
Contributing:
Finance: Peter V O'Brien
Auckland Bureau:
Warren Berryman
Gordon McLauchlan
Advertising Sales:
Manager: Paul A C S Loh
Promotions:
Manager: Kathi Scott
Circulation:
Manager: Jan Chee
Auckland Office:
2nd Floor, Laviens Building
Cnr Airedale & St Paul Streets, Auckland
Tel: 799-304
Wellington Head Office:
Fourth Estate Newspapers Ltd
15 Blair Street, Wellington NZ
PO Box 9344
Tel: 738-878
Cables: Natbus
National Business Review incorporates *Admark* and is a registered publication weekly (except for last week December and first two weeks January).
Typeset and composed by Computype Services Ltd, Wellington. Printed by R Lucas & Son Ltd, 118 Kapiti Road, Paraparaumu.
Single copies: 80 cents
Subscription rate: NZ$30
Member ABC (Audit Bureau of Circulations)

Thinking big: a provocative message from Britain

by P L Morgan

"BUT New Zealand has only 3 million people." "It's so far away from the big markets of the world."

Too often such excuses are made by New Zealanders to explain why their export trade does not grow in the diversified manner proposed by economists and urged by the New Zealand Government.

Or what about: "If New Zealand sank into the ocean, nobody would notice" (Prime Minister Muldoon)?

Apart from the fact about New Zealand's population, these statements (with apologies to the Prime Minister) are just untrue.

In 1882 the sailing ship SS Dunedin left for England with 246 kegs of butter in her new fang led refrigerated hold. In 1980 the export of New Zealand butter to Britain has been *limited* by EEC regulations to 115,000 tonnes annually (New Zealanders still have about 55,000 tonnes for which alternative markets must be found).

There may be only 3 million people in New Zealand but the last time we counted (before falling asleep) there were about 62 million sheep — and New Zealand Forest Products probably can't count the millions of trees it looks after and processes for innumerable applications.

Far from sinking unnoticed into the ocean, New Zealand has become a significant trading nation, a symbol of high-quality foodstuffs and — let us not forget — a leader of the civilisation of the free world in the Pacific. Not bad for a couple of under-populated little islands at the far end of the world.

New Zealand did not become the biggest and most efficient farm in the world without a great deal of forward vision and without people who thought in big terms. They spotted a market and set out to satisfy it.

Now the New Zealand-United Kingdom Chamber of Commerce and Industry has as half of its function the task of promoting northbound trade. To be honest, we don't bother too much about butter, meat and wool. There are impressive commodity boards which know their business, operate at Government level and effectively look after New Zealand's traditional exports. So we look around for something to promote — and we do not mean a few crates of Maori carvings or pretty picture books of beautiful New Zealand.

The sad fact is that the export future belongs to the big battalions. Europe has a population of about 200 million. The same goes for the United States.


New Zealand . . . the most efficient farm in the world


Britain . . . tiny, but houses 56 million people

Even tiny Britain houses some 56 million people. So if you want to make an impact, if you want to recoup the costs of the long ocean voyage, you must have a lot to sell.

Of course you may have to start small — remember the 246 kegs of butter. But it wasn't long before the forests were coming down, the farms going up and sheep and cattle being reared by the millions. If you intend to make the hard work of exporting worthwhile, you must plan on this sort of basis.

New Zealand, to British housewives, means high-quality goods on the supermarket shelves. There is an inbuilt inclination to buy New Zealand — provided it is easily available. The choice in modern stores is such that the customer is not going to chase around town looking for an item, just because it is of New Zealand origin.

Anything you send to Britain must be on a fairly large scale, or you will be wasting your efforts and your advertising money, and any return will be marginal.

So one looks at new industries. What about New Zealand wines, for example? The Australians are making strenuous efforts to improve their share of the British market, with a wine centre in London, encouraging articles in the glossy magazines and "special offers" of sample cases sponsored by various wine-and-food societies. You can actually buy the stuff in the shops.

There is indeed an importer of New Zealand wines, which are carried as a slight curiosity on about page 23 of his catalogue. Stocks are very small and you can't buy the precious liquid at your local wine store, from which you therefore emerge with a bottle of the familiar Beaujolais or, even worse, a bottle of Chateau Sydney Harbour.

There are three lines a New Zealand wine firm could pursue.

- Very high quality wines in smallish quantities, inevitably selling in Britain at pretty high prices. One cannot see any reasonable return on this; a true wine-lover will spend about the same money to buy a cheateau-bottled claret or an estate-bottled hock — and will be certain of what he's getting.
- Vast quantities of drinkable plonk! This would have to compete with the oceans of Algerian, Hungarian and other mass-produced wines and it is doubtful if the economies of production and transport would make this feasible. The customer at this level is chiefly concerned with price, has little or no brand or country loyalty and — dare one say it — little or no developed taste for wine.
- Large quantities of good, medium quality, reliable wine. (At this market level British tastes are tending to reds rather than whites — they have been brought up on Beaujolais, after all). You start by marketing in the south-east of England with a population of about 8 million of the most regular wine drinkers in the country. You investigate shipping in bulk and bottling in London. Yes, we know the French are trying to prevent un-bottled shipments into the EEC, but no doubt the Dorset, Devon and Wiltshire farmers didn't take too kindly to those 264 kegs — if they ever heard of them. And at least one tanker company would love to ship whisky south and do the return voyage filled with wine. You do not start advertising until it is on the shelves of at least one extensive chain of wine stores.

What is a "large quantity" of good, medium quality wine? We consulted a leading London wine merchant of great experience. After some discussion he said that 1000 cases would be a drop in the ocean and would just disappear from sight, making no impact at all.

Any company seriously attempting to enter the British market would have to think in terms of at least several thousand cases a year — and a good relationship with a leading chain of wine stores.

We have laboured the wine problem at length, because it is at least a possible industry for major expansion and because it lends itself to suggestions of marketable quantities. But the moral seems to be clear.

If you are seriously going to export to a sophisticated market area (and by sophisticated we mean that the customer is pampered with a vast choice of competitive goods), you must think big. Forget about a few examples of pottery crafts (you can sell those to tourists in New Zealand). Do what those old butter producers did — spot the big market and get your share of it.

Some New Zealand enterprises have caught on to the idea of thinking big. Kiwi-fruit were unknown in Europe a few years ago. There was a cautious appearance in a few up-market stores and today it is big business, with displays at the corner greengrocer's shop, not only in Britain, but also in Europe, notably in Germany.

Everybody tells me — and my limited experience suggests it is so — that New Zealanders are an innovative people. It is up to New Zealanders to consider what they could produce in sufficient quantities to make a worthwhile impact on the world.

It does not have to be within the foodstuff industry, just because New Zealand has an enviable reputation as a supplier of food. You originally capitalised on a fertile soil, a good climate — and plenty of hard work. Now New Zealand has become an energy-rich country, which might suggest lines of manufacture which would be unprofitable in countries less well-endowed.

There are clearly areas where New Zealand industry is not going to be competitive. A specialised machine-tool company in Birmingham can use the advantages of large-scale production, customers on its doorstep and tariff-free entry into neighbouring Europe.

But one should not make the mistake of thinking only in terms of small-scale production — New Zealand farming is [illegible]. You will probably — and rightly — fight shy of labour-intensive industries, but there again, farming was pretty labour-intensive until New Zealanders discovered how to move out of the smallholding era into the day of the 62 million sheep.

Now will someone kindly write an article pointing out I am quite wrong.

P L Morgan is director of the New Zealand-United Kingdom Chamber of Commerce and Industry, Dorland House, London.

Letters

Tiwai Point and aluminium

THE average reader must find it very hard to understand why a generally reasonable paper such as yours can so persistently misinterpret and misrepresent written material on the economics of expanding the primary aluminium industry in New Zealand. Your portrayal and assessment of my views on September 8 was so error-ridden and inaccurate as to completely distort the facts of the situation, as I pointed out in my letter published on September 15. Unfortunately, your further assessment of my published material on the 15th seems to me to be biased in several important respects.

I wish to make the following points:

(1) You say that NZIER considers 1c/kwh hour (for electricity) to be "the appropriate price". We do not say this, we used a range of selling prices of between about 1-2c and we use a number for showing the sensitivity of the results. Please indicate where we say that 1c is appropriate and what we say it is appropriate for.

(2) You say NZIER "admits" that their results are sensitive to changes in aluminium prices but do not show us their calculations so that we can know how sensitive they are. Your writer says that all that is volunteered is the information that if electricity costs are high and foreign exchange is adjusted to provide a 10 per cent premium, a 10 per cent fall in the aluminium price from around $1600 reduced the project's return to near the bare 10 per cent criterion. That is a quote from our results but, as in the previous articles, the writer is unable to read, or chooses to ignore the information on page 36 which shows precisely how the net benefits shift with a 10 per cent real fall in aluminium prices. Why was this not pointed out to your readers?

(3) You say the weakness of the NZIER study is the length it goes to to "sell the smelter". Could you please quote for your readers the sections of the report that you suggest show *"the lengths it goes to to sell the smelter"*. In fact, I think both the assessment and presentation of the results are in many ways conservative. Most importantly, the results we present show that it is quite likely that the project could return in excess of 15 per cent to the New Zealand economy. And yet, most of our conclusions are presented in terms of the project exceeding a 10 per cent real rate of return.

I suggest that, if we were really trying to sell the project, we would not have included the information which you quoted that under certain conditions the return from the project reduces to near the bare 10 per cent criterion, nor would we have included Table 4.5 information (page 37) showing circumstances under which the return to the New Zealand economy becomes negative and we specify exactly those conditions and the actual negative value of net benefits under those circumstances.

It does seem from your comments that if our results come out positive in a project evaluation that by presenting such results we are "selling the project" and I reject that view completely.

(4) You say we do not provide the reader with enough information to see how the results are calculated, or how sensitive they are to different assumptions. We do not show the details of the calculations but you did commend the NZIER paper on its explanation of how a discounted cash flow technique may be applied to the evaluation of development projects and the results are a direct function of that technique and the numbers used. Most of the key numbers are published and we went to considerable lengths to show the sensitivity of the results to different assumptions and presented circumstances in which the results become negative. Your writer gives us no credit for this.

(5) Normally I would accept that specifying the selling price of aluminium as $73 per pound rather than cents would be a typographical error but in this context, I doubt it.

(6) Finally, could I say that for all your pontification about open debate and public responsibility:

- You have insulated yourself from the Press Council and it has no authority to comment on your content; and
- You persistently refuse to name your economics correspondent and the economics writer involved in this case. Your handling of the aluminium issue is in marked contrast to the general fair presentation by the rest of the news media in New Zealand. Moreover, I think it unfair, if not unethical that your anonymous journalist can butcher identified people's and organisations' views with impunity, and that I have to waste so much time on correcting him.

T K McDonald
Director
New Zealand Institute of Economic Research

IN "Weighing Up the Costs and Benefits of Tiwai Point", we quoted your statement that "as with many cost-benefit exercises, the characteristics of the projects are best understood by reference to the array of results and conditions, rather than focussing on a single result". We then said "space limitations do not allow a full appraisal of all NZIER's runs", to indicate to readers that we would be looking at select examples.

In three places in your reports (in the summary and conclusions), you emphasise results based on a 1 cent price. We felt we were being fair in selecting that price for discussion in our article.

On page 36 of the report, you illustrate four cases but only one where the aluminium price is varied, showing that a 10 per cent fall would give a low (though still positive) net benefit. These four cases illustrate that NZIER's results are sensitive to the aluminium price, but we could not see how sensitive the results are over a range of aluminium prices (both within plus and minus 10 per cent and for lower prices) or why the results are as price-sensitive as they appear to be in the four cases you do illustrate.

It is usual in reports of this kind (when information is not confidential) to run sensitivity tests over a range of assumptions and to publish a statistical summary of all the important results. This sort of summary information does not appear in the NZIER report. We selected your illustrations showing the conditions for reducing the project's return to near the bare 10 per cent criterion for discussion because we considered it was the case of most interest.

Our discussion of your discounted cash flow technique was designed to show our readers that your results were subject to qualification. We hold to our opinion that the emphasis in the reports is on illustrating the conditions which make the third potline appear attractive. The electricity resource costs chosen by you do not assess the worst conditions known to be possible — recent information from the Department of Energy indicates that they could be substantially above your highest 4 cent NZ/kwh. Not enough information is supplied to show why your results are so sensitive to the aluminium price and the reports do not adequately explain — in our opinion — how the consortium is taxed and the extent to which it may or may not benefit from Government assistance.

We have done nothing to insulate ourselves against Press Council authority. We are deemed ineligible to join the Newspaper Proprietors' Association, and so Press Council access is denied us.

Two of our writers [illegible] produced the articles which have been the subject of your correspondence. Editor.

Politics

Glimmerings of evidence for Labour optimism

by Colin James

THE Prime Minister can do most things better than the Labour Party.

This superior ability extends to his own undermining.

Measurements of public opinion by the monthly Heylen Poll over the past two and a half years show a remarkable coincidence between dips in National Party support and dips in the Prime Minister's rating as the preferred person for his job.

The most recent example was in the September 6 poll, when the party's rating dropped 3.0 per cent and his own 6.6 per cent.

So what? Social Credit leader Bruce Beetham's ratings broadly rise and fall as his party's rating rises and falls.

The poll, however, provides other readings that suggest there is more to it.

Since the 1978 election two of the "problems" nominated by poll respondents month by month have been "Muldoon" and "politicians/political parties/and the government/leadership/the leader".

Taken together, these "problems" are mentioned noticeably more often in months when the ratings for the party and the Prime Minister drop significantly. The same goes by and large for the "Muldoon problem alone.

Plotted on a graph (there is not space to reproduce it here), the line recording concern about these problems is a near mirror image of the line recording National support.

While National and the Prime Minister were going down between August 9 and September 6, for example, the total reading for the "Muldoon-leadership" problems went up from 2.4 per cent to 4.7 per cent. That for "Muldoon" alone rose from 1.0 per cent to 2.0 per cent.

Some words of caution:

- The figures are low. Other factors may be more important in any given month.
- The second category is not specific to the Prime Minister.
- In any case, the movements in the readings for the "Muldoon-leadership" problems may be smaller than the maximum statistical margin of error. Conceivably, they could be aberrations.

But, even acknowledging that, the readings match — thrice in 18 months — more often than one could expect from coincidence alone or from the unrelated action of other factors.

And, although they feel it in their bones rather than read it off graphs, National Party planners are aware of this.

They know that after the Prime Minister re-raised the Moyle affair in April 1978, National support dropped 4.6 per cent. They know that after he reverted during the election campaign in November, 1978, to some of his more boisterous tactics, support dropped 6.8 per cent.

And now they know that after he got stuck into Tom Scott in August party support dropped 3 per cent.

The effect is temporary. As a National notable said after the East Coast Bays by-election, "the public has a two-month memory". We can also expect a gradual restoration of party-Prime Minister relations.

But there does seem to be a cumulative residual disenchantment after each outburst.

Roger Douglas . . . back on side with a job to do.

And what if he bursts out in the heat of the 1981 campaign? The resulting Punch and Judy show would put at risk all the good works, all the development strategies, all the constructive forward-looking speeches — and even the Prime Minister does deliver such speeches, most recently to manufacturers on August 18.

If I were the Labour Party, (which, thankfully, I am not), I would not say a word against the Prime Minister between now and the next election. Instead, I would try to arrange things so that one of the Prime Minister's betes noires does something at a crucial time that entices out his old pugnacious self.

But waiting for the right bounce of the ball is not enough. Even if he rejects the outburst-poll drop link, the Prime Minister attaches sufficient priority to winning to want to try to eliminate the risk.

Labour needs a more positive recipe for victory.

For the moment, Labour is already benefitting from the National disarray after East Coast Bays. There is nothing like disorganisation and decay in your opponent's ranks to buck up your own spirits. And a rise in morale can have a contagious effect on the electorate.

And there has been disorganisation and decay: uncertainty over the development strategy; problems getting members and money; growing concern over the festering Marginal Lands Board wound.

(How Nationalists must now wish Venn Young had quietly stepped sideways at the start and killed it dead. There is a nasty half-joke going the rounds predicting Social Credit wins in by-elections in Waitotara and East Cape.)

Result: Labour sniffs victory — despite its deep problems with Social Credit (see Page 23) and a continuing soft image.

And for a change, there is a glimmering of supporting evidence for its optimism.

I have noted here before the innovative policy work of younger MPs. Particularly I mentioned David Caygill's economics committee which has been overturning some longstanding Labour kneejerk economic attitudes.

Now that work has been broadly endorsed by the policy council. So we can expect an economic strategy that goes something like this:

- Recognition that unemployment and low growth go hand in hand and will not be curable with the wave of ideological wands. Inherited inflation, the Government internal deficit and the balance of payments deficit will see to that in the early years of any post-1981 Government.
- Recognition of the counterproductive effects of high protection and the need for a shift to long-term competitiveness in industry because protection does not mean jobs in the long run.
- A gradual shift from import licensing to tariff protection, backed by extensive adjustment assistance to minimise the social effects of the resultant changes in the structure of industry.
- Concentration on small, New Zealand-resource-based industry and opposition to large-scale energy-intensive industry.
- Radical changes in the tax structure to reduce income tax on wage workers (the financing of which is still to be settled).
- Rationalisation of the social security system to bring benefits into line with each other and, by introducing conceptual changes, reduce the stigma of unemployment.

The new policy maintains Labour's genealogical links with its traditional social values of full employment (still a key objective as will be seen from Rowling's first rally next month), fairer distribution of income and so on.

But it represents a radical rethink of techniques — an attempt to get away from Labour's "socialist, interventionist" image.

It's more head and less heart. For example, David Lange, in opening the parliamentary debate on the closure of the Southdown freezing works, carefully avoided saying a Labour Government would have *kept the works open.*

It appears, in parliamentary party terms, to be a decisive victory for the attitudes of younger MPs over those of older MPs — the end of the paralysing factional standoff.

We may have seen the end of the disunity and disarray which have plagued Labour since 1978.

One important recent move has been the appointment by Rowling and president Jim Anderton of Roger Douglas to prepare an organisational strategy for getting Labour's message across.

Douglas's rejoining the mainstream marks his continuing important influence and high public esteem. For his part, Douglas has recently been more moderate in his public comments.

Can the message be sold? That will depend on Rowling.

Rowling tends to go for tear-jerker speeches — good for sympathy, but not for votes. At Southdown, he said he would have kept the works open.

Is he really on side with the new approach? He is said to have remained neutral during the policy debate, but he may have determined its likely direction anyway in his choice of committee personnel last year.

In any case, it is probably style that counts more. If Labour is to win — or, more important, win well — he has to convey to a sceptical public and even party membership an impression of a united, clear-sighted, realistic (and perhaps a little visionary) party.

That is still a tall order, especially with brick-dropper Anderton hovering around and with Social Credit well mounted on its election steed. But if he succeeds, Labour could demolish Social Credit and National. At last, some possibility of a fair fight.

Economy

Making the most growth out of a mini-Budget

Economics Correspondent

ROB Muldoon, the Prime Minister and Minister of Finance, said in this year's Budget that "the over-riding aim of the economic policies which the Government has been putting in place is to lift the economy out of the low growth trap in which it has been caught."

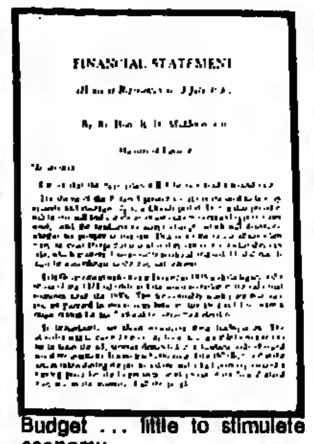
But the Budget did little, if anything, to stimulate economic growth. Unemployment has risen steeply upward toward 60,000, the balance of payments deficit is showing signs of deteriorating to well over $1000 million and inflation is still at record levels. The economy might be better characterised as perched precariously on a sinking ship, hoping to be rescued before the ship totally submerges.

And it just so happens that next year is election year. Based on the little that economists know about lags in the time it takes for the effects of economic policies to be felt, new policies must be introduced soon to be effective by the election.

This Government came into office in the mid-1970s promising to restore the shattered economy. Muldoon was characterised as an "economic wizard" who could reduce inflation below 10 per cent, reduce unemployment and set the economy on a fast growth path.

After half a decade of low and even declining economic growth, the highest level of unemployment since the Depression and record inflation, Muldoon's credibility as an economic wizard has worn thin. There is much speculation that

Rob Muldoon . . . economic wizard worn thin



Budget . . . little to stimulate economy

Don Brash . . . voted against in favour of unconventional

this is why voters in East Coast Bays voted against National's attractive candidate, economist Don Brash and in favour of Gary Knapp, even though he represents Social Credit's more unconventional economic policies.

The National Government has not delivered the economic goods they promised.

In 1972 and 1978, Muldoon's party gambled on winning the election by stimulating economic activity. The idea was to generate enough economic growth and improve real incomes close enough to election time that voters would return National to office.

In a way, it is a no lose situation. Economic conditions may influence people to vote for the incumbent Government. And if the incumbent Government is not returned, the new Government takes office in time to find a difficult economic puzzle to solve.

The economy can only be stimulated so much. If the economy grows too rapidly and if real disposable incomes rise faster than domestic output, then imports rise. This rise in imports leads to a deterioration in the balance of payments which will constrain the ability of local firms to increase their output.

In 1972, the National Government lost to Labour after over-stimulating the economy. The oil crisis added to Labour's problems and they lost the election in 1975 because of National's claim that they could manage better.

Labour's failure was to recognise that real incomes were growing too fast. They did not put the brakes on economic activity soon enough to avoid the balance of payments deficit reaching the highest level ever.

Economic conditions deteriorated so fast and to such an extent when the Labour Government was in office that the National Party was able to claim they were the superior economic managers and this helped them to win the 1978 election. This win was aided by a mini-Budget introduced in October 1977 which was effective in bolstering sagging retail trade and solving the rise in unemployment.

It is possible that a mini-Budget introduced in October 1980 could be the answer to Muldoon's prayers to win next year's election.

But it will need to be more than the simple pump-priming exercise set in play by the 1977 mini-Budget. A lot has happened since then.

The oil price has continued to rise, along with other commodity prices. A lot of skilled New Zealanders have left the country. Interest rates have risen to around the 20 per cent level for some types of borrowing. Some of our local industries have been restructured into the ground.

All these things and more have added to the uncertainty which surrounds decision-making in the business sector.

And this means it might be harder and it might take longer for the economy to respond to the Government's attempts to use fiscal and monetary policy to stimulate economy activity.

There are two broad methods the Government could use to breathe some life into economic activity. It can increase its own spending or reduce taxes, creating a rise in aggregate demand and hopefully generating more economic growth (and employment) as local manufacturers expand their output to meet this.

Or the Government can generate growth in the money supply, making credit more available for consumption and investment.

Both of these moves have the danger of causing inflation to rise even higher than the record 18 per cent rate we now have. And they go against Muldoon's own budget policy to bring about lower inflation through fiscal and monetary restraint and the implied threat that wages should be kept under control.

Budget policies have repeated the Government's intention to control the money supply and to smooth out the peak in monetary growth stimulated by the October 1977 mini-Budget.

Money supply growth rates have been successfully lowered to the target levels, substantially below the rate of inflation and this is one achievement that the Government does not want to throw away.

As the Budget says, "we will not throw away this achievement. We will not allow credit to increase in order to validate soft wage settlements. If increases in wage costs and prices are excessive, the money will not be there to meet them. The business community has been warned."

Of course, this Government has been known to reverse decisions before. It is possible that fiscal and monetary restraint will be thrown out the window and a mini-Budget would claim that increasing jobs, not controlling inflation, was the Government's aim.

But it is questionable whether firms would expand and create more jobs. Much of the skilled labour they need to organise expansion has migrated. More importantly, many firms have a great deal of spare capacity, so they can increase their output without expanding or creating new jobs.

And anyway, past experience has shown that if firms do take advantage of pre-election expansionary policies, they have to scale down their activities when deflationary measures are brought in after the Government wins the election.

It may be too late for expansionary policies to work.

So this mini-Budget will have to come up with some novel ideas to stimulate investment and growth.

One novel idea would be to design policies aimed at restoring the economy, not winning elections.

This means coming up with development projects which provide jobs, but which may take longer than a year to effectively stimulate economic growth.

Interest rates stay stable if policy adhered to

THE Institute of Economic Research has added its weight to the view that interest rates are unlikely to fall significantly this year, although they may.

In the last issue of *Quarterly Predictions*, the institute has an expanded section on "Monetary Conditions". After discussing the relationship between the 1980 Budget deficit before borrowing, the monetary base, and monetary aggregates, the institute states: "We accordingly expect that these rates (short-term) will stabilise around their current levels. Long term interest rates are likely to hold up, at least until the rate of inflation falls — and that seems unlikely within the next year.

"So on balance, we think 1981 is a year in which Government could, if it holds to its budgeted fiscal programme, get the growth of monetary aggregates under control and lower growth to a rate which could help restrain inflation without needing to push up the interest rate. Such an outcome would undoubtedly help 'consolidate a foundation for sustainable development'." *(The quote within the quote is taken from the 1980 Budget).*

Referring to the money figures, the institute says growth in M3 (notes and coin, and demand and time deposits at trading banks, savings banks, and a range of financial institutions) is currently about equal to the rate of inflation while the growth in M1 (the "money supply") is substantially below inflation.

"The question is whether the current growth rate in the money supply and growth in the monetary base will be sufficient to accommodate the forecast growth in domestic expenditure."

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

Quarterly Predictions forecasts a 14.5 per cent increase in Gross National Expenditure, and says a 10 per cent growth in M1 would probably be sufficient to accommodate this amount of growth in domestic spending without putting any severe pressure on corporate liquidity and "general transactions requirements and thus on short term interest rates".

The institute also has some basic information for policy-makers who may stray from the path of monetary righteousness (or should we say "orthodoxy", since that now seems the new line following deputy prime minister Brian Talboys' speech last week to Wellington Manufacturers' Association?).

"It is well established that monetary authorities cannot simultaneously control the growth in monetary aggregates and set the interest rate, specially if they try to do so via open market operations; one or the other must be chosen as the target of monetary policy. If some compromise is attempted (some balance of trade-off between the two is sought) the authorities may well end up with no control of either variable and both moving up together". And so say all of us.

The comment was made in the context of recent monetary policy, before examining the current situation, but, even in isolation, it is a succinct statement of reality.

A distortion in the New Zealand scene can affect that reality, because the Government has a captive market for its securities, in the form of institutions which have to meet Government stock ratio requirements.

The Government has the capacity, although not always the desire, to alter those ratios as it thinks fit, and to that extent it can impose an interest rate as it thinks fit. But in relation to open market operations, the institute's statement is probably as close to an eternal verity as anything can be in the wonderful world of economics.

The institute refers to the captive market when estimating the Government's borrowing sources over the last year. It says the Government's private sector borrowing, from outside the M3 financed institutions, amounted to only about $66 million in the June 1980 year, compared with "the massive $808 million of the previous year."

The Government's decision to cut, in two stages, its stock rate for medium term securities by 0.5 per cent is considered "questionable whether this will have a significant effect on market rates".

"Rates on medium term Government stocks were (at 12 per cent for one year and 12.5 per cent for two years paper) already somewhat below market rates and the new rates to be offered on a conversion issue held largely by captives who may well have to buy the stock to meet security requirements anyway.

"There is little sign of the long rate being pulled down. Nor is there any strong pressure for it to be pulled up from the demand side. Investment demand is weak and with long term rates currently averaging 15-16 per cent, an increase in demand for long term funds is unlikely.

"It seems therefore that easing of short term rates relative to a stable long term rate, is the most likely way in which the system will move to a more normal yield curve."

The institute expects the injections to the monetary base from the Budget and balance of payments transactions will be smaller over the coming year "even without the Government borrowing aggressively."

In view of some of the comments made recently about reductions in interest rates, with the Government leading the way, the proponents of the argument might sit down and study the institute's assessment complete with tables and charts, rather than rely on an assessment of what the authorities might like to do as opposed to what they are able to do, even when allowance is made for the captive market and some slight rate reduct...

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Coachline share sale raises interesting legal point

THE Midland Coachlines share sale was an intriguing event for the sharemarket last week. While there is nothing particularly strange about the Giltrap purchase of shares, the activities of the Government Life Office were interesting.

Auckland's Colin Giltrap obviously sees good opportunities in the tourist company, possibly as an outlet for some of his motor vehicles to the group' rental division. Since he had been buying shares for some time, a sudden increase in the holding made sense.

But the Government Life Office entered Midland some months ago, apparently as a medium to long-term strategy based on the whole tourist industry. To that extent the purchase of the former Dalgety holding tied in with GLO's stake in the Dunedin company, Southern Cross Hotel (Dunedin) Ltd.

The office then turns around and sells its substantial holding, apparently on the grounds that the price was too good to miss. Fair enough, but the points which have received publicity so far are not the end of the story.

Within a few days of the Midland sale to Giltrap, the *Gazette* carried the approval of the Examiner of Commercial Practices to the GLO's request to raise its stake in Midland to 30 per cent of the capital. (The same *Gazette* also allowed the insurance office to go to 30 per cent of Southern Cross. Both approvals are dated September 9).

That raises an interesting legal point as to whether the GLO can now go out and buy another 30 per cent in Midland, assuming the price was right. Since the price shot up 33c to $2.03 last week, that may be only a theoretical matter, but the approval has been gazetted and even in theory it would appear to give the GLO the power.

Secondly, after all the hoopla when the purchase from Dalgety was announced, the new big institutional shareholder sells out and refrains from advising the company what it is doing.

There is certainly no legal requirement on a shareholder to tell anyone that he is disposing of shares, but it seems curious that the company's largest shareholder, and obviously a comfortable partner for Midland, goes ahead and lets the holding change hands without (according to Midland's chairman) consulting the group.

And the affair has an indirect sideline. While major share transactions in institutions are usually made by reference to a number of people, a procedure which the GLO may have followed, the office's Assistant Commissioner for investments is one Frank Pearson.

A few weeks ago on the Radio New Zealand programme, *Money Matters*, the Assistant Commissioner (although not acting in that capacity) gave listeners a detailed statement of the pros and cons of "dawn raids", which have been exercising the minds of London, and also New Zealand, the latter through the Fletcher/Carter Holt affair.

Pearson's comments were on the same lines as those in a detailed London *Financial Times* analysis a week earlier, regarding institutional duties to other shareholders, the interests of the company, the fact that rights denote duties and responsibilities and so on. He also discussed the pressure on investment managers to perform in times of high inflation.

A comparison of the comments with the London article suggests that various investment thinkers may have some common ground on the problems with dawn raids.

The Giltrap purchase of Midland shares is certainly not a dawn raid, but one could take the view that the questions raised about that practice, as they affect institutional investment decisions, might also apply to a case where a large shareholding is sold without the prior knowledge of the company, and when the company's chairman is reported as being under the impression that the investment was long term.

If the cases are different, it would be interesting to learn from someone how they differ and how the GLO's sale decision was made.

Other market news and activity was moderate last week, with the exception of the still bubbling mining sector (*NBR* September 22), and the excellent improvement in John Burns profitability.

The latter is probably the turnaround of the year, although the market knew for some time that matters were improving rapidly under the internal rationalisation programme.

The slowdown in the share prices for the major companies which have been in the front of this year's run was referred to here last week. The static prices for those groups continued, and seem unlikely to change in the next few weeks, at least until the interim results to September are available.

Share price movements over the past week or so suggest investors are moving to high yielding stocks, with good management, and evidence that they are emerging from difficulties associated with their particular industries in recent years.

But there is a gradual slowdown in economic activity at present, which listed companies will find hard to shrug off, so the market may be in for a quiet period, with the exception of those phoenix-like mining shares.

Note: The writer neither owns, nor has a beneficial interest in, any of the securities discussed in this article.

"Miss Parker, I want someone between the age of 25 and 30 with 40 years experience."

Analysing annual accounts: NZ Farmers Fertiliser

THE New Zealand Farmers' Fertiliser Co Ltd has produced an annual report which gives nearly all the financial and explanatory information considered necessary for an informed assessment of a company's performance and prospects.

The lack of information on production and administrative costs is the only quibble that I have with the report. That data would round out comments in the text on increasing costs, for both local and imported inputs, and allow an analytical comparison of the cost structure, and therefore the impact on group profitability, both in the year under review, and in the immediate future.

The information has nothing to do with the requirements of the Companies Act, nor with the Accountants Society's guidelines, but it would be useful.

(That comment is made because I received communications from various companies about requests made here for detail which they say is outside their legal obligations. Adequate financial disclosure in 1980 has nothing to do with the out of date Companies Act, nor with the necessarily drawn out procedures of the Accountants Society when it prepares a guideline. Many companies have left both the law and the Society behind when it comes to disclosure).

The NZFF report could be used as a model on informative

THE NEW ZEALAND FARMERS FERTILIZER COMPANY LIMITED
1980
ANNUAL REPORT

reporting to shareholders and other interested parties, particularly the directors' report and managing director Peter Kiddell's review.

The latter says precisely what it wants to say with an admirable economy of words. In comparison with the verbosity of other chief executives (and verbosity can often be used to gloss over unpalatable facts or to keep back relevant information) the review sets out clearly what happened last year at NZFF, and, possibly more important, what is likely in the current term.

Riddell is one of the few chief executives who is prepared to reveal the relationship between his company's output/turnover and the budgeted figures, as well as the budgeted amount for the present financial year.

Referring to the fertiliser division, the review says "the company has budgeted for a reduction of about 9 per cent in output for the 1980-81 year and provided the reduction is no greater, the division's profitability will again be at a satisfactory level." Since the company lists its fertiliser tonnage, and it is sold at a fixed price, there is no difficulty in projecting likely sales revenue from the division.

Similarly, the chemicals division, which had sales of $16.5 million last year, is budgeted to increase turnover 20 per cent in 1980-81. Therefore the reader can see that the company expects divisional sales in the region of $20 million this year.

NZFF earned $5,945,828, before extraordinary items, last year. The addition of depreciation, and deduction of extraordinary items, gave a cash flow of $7,188,971 on total assets worth $100.8 million, for a return of 7.13 per cent, compared with 7.92 per cent in 1979.

The group carries realistic valuations of fixed assets in the books, so the returns are "true" in the sense that they reflect the availability of cash flow to maintain the business.

The figures in each year are not particularly outstanding, but the company is operating in a difficult industry, with 54.3 per cent of its sales coming from fertiliser last year compared with 54.7 per cent in 1979.

The dollar value of fertiliser turnover went up 12.2 per cent, compared with 36.7 per cent for chemicals, 10.3 per cent for "health and science division", and a slight decrease in "other sales and services". Export sales, included in the four divisional groupings, accounted for $3,363,249 of total sales, as against $2,406,620 in the previous year, a rise of 39.6 per cent, with a consequent impact on the tax bill.

And taxation is a feature of the notes to the accounts. Everything you wanted to know about a company's tax liability, and how the liability is incurred, is available in the report.

Information on the tax bill is vital these days to an assessment of a company's performance, and its profitability in future, particularly when export incentives are earned. NZFF's export sales are still a small proportion of total turnover, but the figure is rising rapidly from the small base. The tax results are relevant to future earnings.

The group balance sheet illustrates the effect of imported and local inflation on New Zealand business.

The company required an additional $8 million (19.8 per cent) investment in current assets to maintain the operation, with stock investment rising $3.6 million (16.3 per cent) to $25.6 million, and debtors jumping $4.34 million (25 per cent) to $21.7 million.

The bulk of that investment was financed by a $8 million rise in unsecured loans, although there was a reduction of $2 million in overdraft, offset by $3.2 million increase in creditors.

The company is planning to transfer short term unsecured debt to term liabilities this year, so the reliance on comparatively volatile finance will be less.

Shareholders should be satisfied with their company's report, particularly with the disclosure level which says what happened, and what is happening, without any fears that people will find out too much about the group.

O'Brien on business

Licensing trusts turn in a mixed performance

THE 10 licensing trusts which have reported to Parliament so far this year are split evenly between those which improved their profitability, and the group where the return on sales fell.

The table sets out the figures for the 10 trusts, with comparative percentage relationships of net profit to turnover for 1979. The table differs from that published in *NBR* last year (October 17 1979), because the Terawhiti (Wellington), Wellington South, Clutha and Oamaru trusts had not published their reports by last week.

In 1979, only the Oamaru (among the trading trusts) was omitted from the table. The 1979 average return on sales has been adjusted for the changes, and some individual figures are altered because the 1980 accounts show profit changes to 1979 for "prior year adjustments".

As in 1979, the table shows a wide variation between trust performance, although that comment needs qualification, because some of the organisations provide accommodation and meals, while others are solely in the business of selling liquor.

Trusts in the latter group also differ from each other. Some operate bottle shops only, while others have a mixture of taverns and retail/wholesale outlets.

Subject to those qualifications, it was a mixed year for the local counter-weights to brewery, or other privately-owned, liquor operations.

The Invercargill one had another difficult year, when net profit is related to turnover. Sales went up 20 per cent, but net profit was down from $158,004 in 1979 to $156,406.

Trust	Sales 1980	Net Profit 1980	Per cent to Sales	Per cent to Sales 1979
Birkenhead	1,767,154	88,001	2.46	0.98
Portage	9,407,575	417,004	4.43	3.88
Waitakere	5,861,028	323,884	5.55	4.38
Masterton	5,969,163	332,827	5.57	4.70
Porirua	7,554,909	384,408	4.82	4.36
Johnsonville	8,506,217	113,838	1.34	1.88
Ashburton	3,912,687	208,464	5.33	5.47
Geraldine	774,826	21,407	2.78	4.18
Mataura	6,027,317	131,824	2.80	7.08
Invercargill	14,173,760	156,406	1.10	1.34
	63,844,744	2,138,071	3.34	3.11

+21.1 per cent on 1978 +30.2 per cent on 1979

The trustees explain the fall: "Turnover is again the highest recorded but because of the high rate of depreciation resulting from the construction of Ascot Park the profit is very much in line with the figure for the year ended March 31 1979. The high rate of depreciation as a result of this construction will continue to affect profitability for a few years but cash flow remains at a high level."

Masterton turned in the best performance on the basis used in this survey (although other methods are also valid), with a return of 5.57 per cent, compared with 4.70 in 1979. Mataura slumped badly, due to a loss of $73,554 on accommodation. The trustees refer to flood damage which affected the Falls Motels, and to a downturn in the tourist market.

The trust's sales increase from $4.2 million to $5.0 million came mainly from increased liquor turnover (up 1 per cent), although "board", with an increase of $39,000 (12.7 per cent) also showed an improvement.

The Geraldine Trust was another to suffer a profit downturn, but in that case the trustees offer no explanation. The accounts show the problem was a sizeable increase in indirect expenses, particularly salaries and repairs and maintenance.

The reports of the 10 trusts reviewed here have an unusual variation in the layout of their accounts.

There may be a reason, but to the untutored eye there seems little logic in the differences, particularly as at least two trusts adopt a very old fashioned method of setting out their profit and loss accounts. (The citizens can rest easy on this point, because the Audit Office is satisfied that everything is in order).

The old problem of competing outlets appears in the report of several trusts. In urban areas, and also in Geraldine, where reference is made to a "strange phenomenon" people do not have to travel far to reach a non-trust outlet. To that extent some trusts are in direct competition with the privately-owned trade, although within their borders they have total control of liquor sale.

Some of us who live in suburban trust localities find (when doing our weekly "shopping") that the bottle shops can have interesting price variations (usually upward) when compared with the equivalent product in the central city outlets.

The explanation is usually that a new price list has come to hand, but those trusts at times have a very efficient system of changing the prices before their competitors, particularly for wines.

Court convicts group on smuggling charges

by Warren Berryman

SMUGGLING convictions were secured last week against Prestige Toys Ltd, one of the Meates group of companies, after investigations by Customs offices in Auckland, Christchurch and Greymouth.

Prestige Toys, charged with 15 counts of smuggling, 16 of possessing uncustomed goods, and 16 of importing prohibited goods, was found guilty and fined $6580.

Brian Meates was found guilty on similar charges and fined $2000. His brother, Jack Meates, was prosecuted separately and judgement has been reserved.

The charges concerned the importation of toys and film positives.

In a separate matter, Kevin Meates, toy importer, and close confidante of the late Norman Kirk, is involved in an import-licensing inquiry by Customs officers, and the Ombudsman.

This case involves allegations that Meates sold $50,000 worth of import licences to Impex International ltd $27,000. When these were received, they were sold Customs (*NBR*, July 14).

Customs is investigating the Ombudsman is preparing report.

Toy imports are one of more controversial areas import licensing system

Toys are sometimes sold as much as 16 times their cost and trafficking in import licences for toys is the rule rather than the exception

When an import licence sold, the importer usually pays 50 to 60 per cent of the value of the goods just for the right to import. On top of this he must pay for the goods, the freight and the duty.

In an unrelated investigation, Auckland Customs officers have prepared a case against another company involving the invoicing and importation of Chinese goods.

The file has gone to the Crown Law Office for a decision as to whether prosecution will be made.

Stock Exchange weekly review

FOR WEEK FRIDAY SEPTEMBER 19 TO THURSDAY SEPTEMBER 25

	Last sale	Week's high	Week's low	Turnover
AIRWAYS,50C	120	120	120	11100
7.5% PV	...	...	...	0
6% PR	...	...	...	0
AJAX X.K.H.	290	...	...	0
A.A.WHITE	125	125	125	200
11.5% CONV PR	105	105	105	200
ALCAN,50C	168	166	188	5500
A.F.I.	255	235	232	15100
ALLIANCE,50C	80	30	50	5500
12% CONV PR	48	48	44	2100
ALLFLEX	110	115	110	22800
ALLIED [illegible]	285	285	283	13200
12% CONV PR	285	285	283	500
ALLOY STEEL	200	...	...	0
A.H.RISLIT, 50C	182	185	182	1200
AMPOL PET.,50C	220	220	220	2100
A.STEVIN	125	175	115	10700
11% CONV NTS	105	105	105	500
11.5% CONV PR	94	94	91	1000
[illegible] GROUP	107	110	105	1900
5-6.3% PR	43	...	...	0
12% CONV PV	92	...	...	0
[illegible] OTAKING GROUP	228	230	228	27100
A.UIIENS	360	360	380	100
"A" 6-7.5% PR	73	75	75	500
"B" 5-6% PR	60	...	...	0
A.BARNETT	190	190	190	2000
A.ELLIS	28	30	27	10800
ARTHUR YATES	580	360	355	1400
12% CONV PR	140	140	140	4700
[illegible] BIORN	245	...	...	0
[illegible].B.CABLES	215	215	215	100
ATLAS, 50C	28	28	28	22400
10% CONV PV	28	28	25	1900
AUCI.GAS	480	480	480	2350
AURORA,50C	165	166	185	8300
10% CONV PR	235	...	...	0
14% CONV NTS	125	...	...	0
CONV [illegible] '84	102	...	...	0
A.C.I.	198	...	...	0
AUTOCRAT HOLDR	155	155	150	109300
BAILLIE,50C	65	85	85	1900
BEILINE,50C	70	71	70	17600
11% CONV PR	60	60	60	700
[illegible] RIV	410	410	410	4800
BLACK PINE.,50C	195	...	...	0
[illegible], 50C	76	78	76	5100
B.N.Z. [illegible]	275	275	275	1700
[illegible],50C	55	...	...	0
[illegible]SLEY, 50C	367	368	387	54700
12.5% [illegible] PR	...	...	...	0
ROT, 50C	52	52	52	1700
O.H.E., 200C	2180	2175	2110	6790
BEDIMAR, 50C	70	70	70	100
BUNTING,50C	87	87	85	7000
BURKIN [illegible],50C	180	...	...	0
C.P.D.	215	215	200	10000
7-8% "A" PR	...	...	...	0
5% "B" PR	...	...	...	0
10% CONV PR	180	180	172	1800
C.7.E.A.	210	210	210	2900
11% CONV PR	170	...	...	0
C.E.N.	215	215	212	2500
12% CONV PR	150	180	145	700
CANT.FLOUR	220	...	...	0
CANT.PAPER	518	515	310	5700
12% CONV 12B	295	295	285	8500
CAPITAL RADIO, 25C	147	...	...	0
CAPITAL LIFE,50C	70	...	...	0
[illegible] 7CA	278	275	275	800
[illegible] HOLT	520	525	320	18800
[illegible]SCO	194	194	192	15500
11% CONV PR	100	100	100	1700
[illegible]	305	505	500	51000
16% CON PREF	505	305	500	25800
[illegible]	140	140	140	3200
[illegible]	210	210	210	200
CH'CH [illegible]	275	275	278	900
CITY REALTIES,10C	58	56	38	19800
[illegible] GROUP	100	100	100	1900
11% CONV PR	90	...	...	0
COLLINGWOOD,50C	38	...	...	0
15% CONV PR	54	...	...	0
COL.[illegible]	185	183	180	9500
CON STB 10%	135	...	...	0
[illegible]	124	150	124	900
[illegible],50C	680	700	680	1800
[illegible]	138	135	158	5500
CON.[illegible]	520	...	...	0
CON.[illegible],50C	152	182	152	3200
CON.SILVER,1C	14	18	15	108400
COOKS [illegible]	165	170	165	3100
[illegible]	112	112	112	4700
15% CONV PR	95	98	95	700
CROWN CONSOLIDATED	205	205	205	71600
11% CONV PS	185	183	181	85500
C.I.H	1020	1020	1002	1400
[illegible],50C	240	...	...	0
[illegible]	255	235	253	14300
[illegible] & [illegible],50C	65	65	64	22900
[illegible]	140	...	...	0
D.I.C	155	155	138	4100
10% CONV PR	124	124	125	500
[illegible] & PAULGER	180	180	180	200
[illegible] VILLAGE,50C	100	104	100	14700
12% CONV NTS '79	...	...	...	0
11% NTS '85	98	100	96	4500
1% CONV NTS	78	75	75	3000
[illegible]	68	...	...	0
DOM.[illegible],50C	74	75	74	45900
11% CONV PR	48	50	48	7000
[illegible]	255	255	253	5400
12% CONV PR	530	...	...	0
D.A.S.,50C	88	88	88	2200
DUNLOP [illegible]	365	...	...	0
4.55 PR	45	45	45	7100
[illegible]	120	...	...	0
[illegible],50C	125	125	125	6200
[illegible],50C	205	205	205	3300
[illegible] MINES,10C	552	550	527	9500
[illegible]	140	143	140	11900
[illegible]	160	160	160	500
[illegible] NT	95	...	...	0
F.I.C.,50C	104	105	104	13300
12% CONV PR	80	80	80	5400
[illegible],50C	66	...	...	0
[illegible],10C	127	150	127	64400
5% PR	40	...	...	0
[illegible] NZ	117	117	116	4600
[illegible] & PAYKEL	194	195	195	42400
[illegible]	564	560	566	40600
15% CONV PV	102	105	102	5600
[illegible] CORP	125	...	...	0
[illegible], 50C	137	157	156	2900
10% CONV PR	07	...	...	0
[illegible]	80	80	78	12500
11.5% CONV PR	70	70	70	700
[illegible] FINANCE	200	...	...	0
[illegible] COURT	150	150	150	800
[illegible] COLES,50C	277	...	...	0
[illegible] BAT,50C	48	50	48	23600

	Last sale	Week's high	Week's low	Turnover
GOODMAN GROUP	268	260	250	124300
14% CONV PR	195	195	195	600
GROSVENOR PROPS, 25C	50	...	...	0
HALLENSTEIN	220	220	220	2000
HANNIKE INTERPRISES,25C	115	...	...	0
HAWKINS,50C	55	53	57	12400
6.5% PR	...	...	...	0
H.D. FARMERS	227	272	720	2900
13% CONV PR	152	152	150	900
HAYWRIGHTS & PRIF	65	...	...	0
HEATING	525	325	280	16800
10% DIB	...	...	...	0
12% CONV PR	310	310	285	600
H.POLLARD	295	295	288	1500
10% CONV PR	220	...	...	0
HENRI BERRY,50C	150	152	150	5300
10% DEBS	255	...	...	0
HOOKER,50C	75	...	...	0
NURS INDUSTRIES	115	115	115	200
5-7.5% PT PR	40	40	40	700
10% CONV DEBS	117	...	...	0
I.C.I.(AUST)	155	...	...	0
I.C.I.(NZ)	185	190	185	5800
IND BROADCASTING	140	140	140	200
INDEPENDENT NEWS	161	185	165	7100
IND.CHEM,50C	170	175	170	200
INTERTASMAN HI,50C	...	...	...	0
I.R.DOV,50C	245	248	245	8100
JARZR AVIATION	325	...	...	0
JONES SMITH 50C	27	87	87	1600
14% CONV PR	55	55	55	100
J.S. WATSON	280	...	...	0
12% CONV PR	220	...	...	0
J.BURNS	175	125	158	56500
12% CONV PS	165	...	...	0
JOHN EDMOND	170	170	170	400
J.WEBSTER 50C	50	50	4?	4400
12% CONV PR	40	...	...	0
J.MERCER INDS., 700C	70	...	...	0
5.25-6.75% PR	...	...	...	0
J.NATHAN	140	...	...	0
8.5% PR	125	...	...	0
11% CONV DEBS	140	...	...	0
L.BATTRAY	200	200	195	2300
12.5% CONV PR	130	...	...	0
SEARNS-DATINN, 200C	210	...	...	0
L.V.RUDKIN,50C	118	119	115	15200
12% CONV PR	92	...	...	0
LARZS,50C	40	40	40	400
L.D.NATHAN	177	178	171	12000
9.5% CONV DIBS	177	...	...	0
LEYLAND,50C	110	110	110	1100
LEOR, 50C	96	97	95	212200
10% CONV PR	88	88	88	64400
12% CONV PS	77	77	75	63100
L.&N.OIL,50C	38	59	37	57800
LUSTEROID	380	...	...	0
MAINZEAL CORP,50C	105	105	105	1900
MAIR,50C	170	170	160	500
11% CONV PS	152	...	...	0
MANAWATU,50C	110	...	...	0
MANTEEL	150	150	130	200
MARAC	260	275	260	1100
MCALPINE,50C	89	70	69	6000
MCKECHNIE	195	195	188	75900
MEDLAND	200	205	200	9700
11% CONV PS	190	190	190	400
MSB.RESOURCES,20C	100	115	100	207400
M.O'BRIEN,50C	70	75	70	1100
12% CONV PR	62	...	...	0
MORTAXA,50C	162	165	182	29200
M-P.I.R.	170	...	...	0
11% CONV NTS	140	...	...	0
13% CONV PS	3	...	...	0
MOTOR HOLDS.,50C	145	143	150	11A700
12.5% PR	...	...	...	0
MOTOR TRAD.,50C	53	56	50	5700
5-6% PR	48	...	...	0
11.5% CONV PR	50	50	50	7700
NBI CORPN,50C	102	102	96	25900
12% CONV PR	100	105	100	2100
M1.COOK	171	175	171	2700
N.Z.M.HOLDS.,50C	655	655	635	200
NAT.TRUST, 50C	200	208	280	10200
NATIONAL TRADING	...	...	...	0
8% PR	...	...	...	0
NAILOR	150	...	...	0
5% PR	...	...	...	0
NBSL HOLDINGS, 50C	30	51	50	59700
N.Z.CEMENT	108	106	108	1200
N.Z.F.C.,50C	100	101	100	18800
11% CONV PR	80	80	80	1500
N.Z.FARM FERT.	170	179	170	42600
12% CONV PR	155	138	135	1280
14% CONV PR	135	158	135	130700
N.Z.P.P.	555	358	550	55000
N.Z.E.G.	350	350	550	1500
5.5% PR	40	40	40	280
N.Z.I.	242	245	242	16700
10% CONV PR	165	170	165	2200
N.T.LAND,50C	28	20	20	2000
N.Z.LEATHER	62	62	60	1180
N.Z.MOTOR BODIES	90	90	90	700
N.Z.M.C	142	14A	142	18500
N.Z.NEWS	210	211	210	12300
N.Z.PETROL,50C	610	650	580	53500
N.Z.REFINING	102	102	100	52200
N.Z.STEEL	188	188	185	22200
N.Z.UNITED	475	475	473	5000
NIVER INDUSTRIES	105	...	...	0
NURAKA	212	212	250	9100
ODLERX, 50C	83	8A	85	76400
"A" 6% PR	20	...	...	0
12.5% CONV PR	60	60	60	5100
"B" 13% CONV PR	68	63	60	4800
OPTICAL HOLDINGS, 50C	6a	6a	65	21700
12% CONV PR	58	50	58	500
OTAGO PRESS & PROD	108	112	108	6500
PAYROC HOLDINGS	110	...	...	0
P.X.L.HOLDS,50C	152	152	150	9100
PXBM.SNVEXT	80	...	...	0
PHILLIPPS & IMPRY,50C	125	125	125	0900
PX2ST2XX,50C	80	05	a0	29A00
PXZXT & PACKAGERS	200	200	108	24600
15.5% CONV PR	165	165	165	7200
PROGRESSIVE	395	305	505	5600
12% CONV PR	000	...	...	0
PROP.SECURITIES,50C	150	...	...	0
PRUD.BUILDING	9a	00	08	2400
OUSLL HOXESR,50C	100	100	100	1400
12% CONV PR	85	...	...	0
RADIO AVON, 20C	175	175	175	1100
RADIO OTAGO	150	...	...	0
REXINA	100	100	100	2200
R & W HELLABY	1X0	180	100	9800
REEZ PARKERS	250	250	250	2200
RXPCO(XX),50C	76	76	76	4400
10% CONV DEBS	02	...	...	0
RXV2XTBX	510	...	...	0
XXX CONTROL.	225	225	225	4700
RHBXX,50C	155	160	135	1000
XICKXTAN,50C	242	...	...	0

	Last sale	Week's high	Week's low	Turnover
ROBINSONS,50C	114	115	115	29100
R.N.SAUNDERS	310	310	510	200
SALMOND	100	190	190	1008
SANFORD	205	295	295	4400
PR	135	...	...	8
12% CONV PR	225	255	225	700
12% "D" CONV PR	230	...	...	0
SCHOFIELD	140	...	...	0
SCOTT,50C	65	65	85	1100
12.5% CONV PR	47	...	...	0
SILBY	215	...	...	0
SKELLERUP,50C	208	300	208	13500
8-7.5% PR	35	35	35	1000
SMITH BIOLAB,50C	16a	16a	16a	2100
12% CONV PR	157	...	...	0
SMITHS C.M.	120	122	120	2700
STH. BRITAIN	2a2	284	2a2	33608
STHN. GOODS NOILL	140	140	140	4500
STHN CROSS MINS.,20C	47	50	50	220400
T.F.M.	215	215	212	31700
SPEDDING, 50C	82	52	80	5a00
12% CONV PR	70	...	...	0
STEEL & TUBE, 50C	108	107	105	5200
SUCKLING	160	180	160	500
TASMAN, 50C	152	152	330	123300
RSO PR	...	...	...	0
PART PR	...	...	...	0
TAYLORS	120	...	...	0
12% CONV PR	118	115	115	100
ICLTHERM	162	168	162	2500
12% CONV PR	125	...	...	0
T J EDMONDS	295	500	295	5200
TOLLEY	110	110	107	13800
TOUR FIJI	58	...	...	0
TRANS ASHBURTON, 50C	47	...	...	0
TRL GROUP, 50C	a8	85	a1	30400
10% CONV PR	68	67	59	10700
12% CONV PR	67	67	64	1000
TRANS (NTH. CANT.)	92	92	92	3500
15.5% CONV PR	84	...	...	0
15% CONV PR	05	...	...	0
TRANSVISION	200	207	200	11400
U.D.C.	147	...	...	0
U.E.B.,50C	104	105	104	20300
6.5-7.5% PR	115	115	115	200
12% CONV PR	83	83	81	500
15% CONV PR	57	57	57	1000
UNITED STEAM SHIP	78	...	...	0
5.5% PR	78	78	78	700
UNITED BLDG	105	...	...	0
UNITED PUBLISHING,50C	215	215	215	1700
VACATION,50C	57	56	57	4500
12% CONV PR	50	...	...	0
12.5% CONV PR	50	10	53	400
WAITAKI-NZR	147	149	146	26100
11.5% CONV PR	147	150	145	[illegible]
12% DEBS	165	...	...	0
WALKER & HALL	447	447	447	1100
WATTIES,50C	122	122	120	[illegible]
15.5% CONV PR	76	76	76	5700
WELGAS	670	470	470	1300
WILKINS & DAVIES	200	...	...	0
5.75-7.5% PR	50	50	80	2000
W.JEFFERY	135	135	130	1000
12% CONV PR	105	...	...	8
WILSON & HORTON	380	530	310	1100
WILSON DISTILLERS	90	00	90	400
WILSON NEILL	129	150	129	1700
12% CONV PR	160	165	160	400
WINSTONE,50C	72	75	72	231200
12% CONV PR	81	51	51	160600
WYNTHS CNIT PROPS, 200C	132	...	...	0
5.75% PR	72	72	22	1900
W'VTHS AUOT, 50C	250	...	...	0
WORMALD	270	270	270	800
5-7.5% PR	100	...	...	0
R.R.CARPENTER,50C	254	...	...	0
V.SUTHERLAND	130	...	...	0

Overseas trade

Manufacturers attempt to outplay governments

by Allan Parker

WHEN New Zealand and Australian manufacturers sit down at the opening session of the annual inter-industry Nafta talks in Hobart's Wrest Point casino today, it will be with the knowledge that they are playing against a stacked deck.

Government officials and politicians hold all the aces.

But New Zealand Manufacturers Federation president Laurie Stevens will try to play a wild card that he – and his federation – hopes the Australians will pick up.

In his opening address this morning, Stevens will tell the Australians simply: Let's get together – and quick! If we don't, the politicians will make our decisions for us.

The federation has long since realised that a closer economic relations (CER) between the two countries is inevitable. Indeed, Stevens reported some time ago that the New Zealand side of the working party, established to examine the issue, believed "expanded trade with Australia had become a political reality and that firm decisions on the liberalisation of import licensing and tariffs were pending".

But he also noted – and this is a key to the message he will deliver today – there was "a lack of awareness" among manufacturers that these decisions were fast moving up on industry.

Another factor behind the let's - play - Happy - Families urging is the lower priority placed on the trans-Tasman relationship by Australian industry.

Given Australia's larger and broader industrial and economic development strategies – particularly in relation to its northern neighbours of South-east Asia and its large domestic raw material supplies – that is not too surprising.

At a working party meeting last May, the Confederation of Australian Industry told its New Zealand counterparts that it believed "a disproportionate amount of government resource was being directed toward the trans-Tasman issue and that unless significant progress was made they (the CAI) would actively advise government to diminish the level of official commitment".

So, although companies with a close investment or trading relationship with New Zealand are keeping a close watch on developments, Australian minds are not nearly as concerned with the CER issue.

Meanwhile, of course, government officials continue their appraisal of CER prospects. Their examination has now progressed quite significantly to the extent that access arrangements for individual products are being investigated; the broad framework outlined by the ministerial communique in March has largely been accepted.

Thus, as one industry official put it, "things are getting down to the nitty-gritty stage now".

Officials from both countries will meet again in October and November to discuss the individual products that could move the duty-free list immediately and those that are more likely to prove troublesome.

Those that could go on to the duty-free list fall into the first of three categories outlined by the March ministerial communique. The categories are:

A. Those which would move immediately to duty-free treatment, for example, those with tariffs which were 10 per cent or less (the bulk of trans-Tasman trade in manufactured goods).

B. Those for which duties would phase out over five years in equal annual steps after a one year grace period.

C. Those on which a decision would be deferred because of special reasons. These could include, but would not necessarily be limited to, cases where an official industry enquiry (such as those by NZ's Industries Development Commission or its Australian counterpart, the Industries Assistance Commission), was planned or in progress.

With government study so far down the track – a ministerial meeting to discuss the official working party reports is expected as early as February or March next year – trans-Tasman industry negotiation and consultation has become urgent.

And that is the reasoning behind Manufacturers Federation president Stevens' speech in Hobart today.

His message is supported by the federation's chief official, director-general Ian Douglas. He told *NBR* shortly before flying to Australia on Saturday that industry-to-industry talks will be vital if industries – and individual companies – want to avoid the sort of disruption that could be caused by government or political decision-making in the absence of manufacturers' agreement.

Indeed, he believes, both governments would welcome industry input if it is a position agreed by both parties.

"If industries can work out their problems on a reasonable commercial basis and go to the governments and say they're agreed on a certain situation, then they're more likely to have that put into any official agreement."

A reflection of the recognition for more urgency by industry groups is the large contingent of individual industry executive officers and representatives who have flown to Hobart for this week's talks.

Also, all four manufacturers' district association directors are attending as well as the federation representatives like Douglas.

Many of the executive officers are planning journeys to other Australian centres after the talks to meet with their Australian counterparts and industry leaders.

Also, several New Zealand industry groups have this year invited Australian representatives to speak to their annual conferences.

But by no means are all industry groups happy with the prospects of CER. An informal survey of trade group opinion was published by the federation's *Manufacturer* magazine last week and revealed varying degrees of commitment or otherwise [to] the concept.

The magazine noted [...] New Zealand industries [...] benefits in the develop[ment] [...] freer trade. Others, beca[use of] their particular nature, [...] such moves will make litt[le] difference, and the third [...] consider that their ind[ustry] could suffer conside[rable] damage through greater [expo]sure to competition from [Aus]tralian manufacturers.

"And even within a[n in]dustry there can be a[n am]bivalent attitude with [...] aspects likely to bring be[nefits] while others could re[sult in] disadvantages."

The federation is thus [...] in a cleft stick. While re[pre]senting total New Zeala[nd in]dustry it must recognise [the] wide differences of [...] within the trade groups [...]

The call for grea[ter in]dustry-to-industry ac[...]tion, it hopes, will [...] of the division with [...] that could result fro[m] encompassing stance [...] by the federation.

Some of the larger [...] groups have already com[mitted] themselves to such [an ap]proach: textile and [...] manufacturers, for [...] and the plastics indust[ry] favour of negotiating directly with their [...] counterparts/competi[tors].

Hopefully, the theory [...] those industries which [...] belatedly been [...] screaming to a realisa[tion] CER is here to stay will [...] suit.

The New Zealande[rs] been encouraged by ind[...] from the Australians th[at] week's talks will be con[...] in a positive mood.

Douglas reports the [Aus]tralians have said they ha[ve no] axe to grind and are app[roach]ing the talks with [...] goodwill – a far cry fro[m the] 1978 Canberra confere[nce at] which both sides ente[red] negotiations in an atmo[sphere] of distrust.

Consultation betwe[en the] two parties is, of course, [...] clouded by uncertainty [...] official intentions.

Douglas hopes that ne[xt] year's ministerial meeting [...] result in a firm announce[ment] that a CER arrangement [...] ahead and, if so, its [...] framework and timing [...] pects any such arrangeme[nt] would be introduced in 1983.

Business on both sides of the Tasman will want to know [as] soon as possible what the [...] arrangement will be. The CER cloud has produced a peri[od of] hiatus, with investment [...] sions being held back [...] concrete announcement [...] tent, however broad, is made [by] the two governments.

To a large degree, the [...] applies to this week's N[afta] talks, which is ostensibly [...] the get-together in Hobart [...] about.

However, [...] with agreement obviously [...] down, the talks will spend [...] time on discussion or [...] tion about matters withi[n ...]

Instead, delegates at the [ca]sino complex will be p[re]occupied with the broader [...] raised by CER. The [New] Zealanders hope that by [...] their cards on the table [...] and the Australians can [...] their governments.

Government administration

Prima donna doctors prevent local purchasing

by Allan Parker

PRIMA donna personalities, the sacred belief in the doctor fraternity and political sensitivity muddy the multi-million-dollar waters of hospital board equipment purchasing.

The Health Department and Minister George Gair are reluctant to exercise the power they have to intervene in board decisions.

But the department officials often have trouble trying to rein in boards and individuals who appear to be anxious to promote political and personal ambitions.

Privately, they talk of "prima donna" doctors and "bloody-minded" boards.

Publicly, they will not speak out because of the emotional responses that can be generated by frustrated physicians and their masters.

As one official told *NBR*: "Who's going to argue when a doctor says they want a piece of equipment and it's life-or-death?"

Because of the political and emotional sensitivity, Gair, is even less likely to take on a medical fraternity which wields enormous political lobbying power.

A veiled reference to the issue – highlighted by inquiries into the purchase of overseas baby incubators in preference to a New Zealand model (*NBR* September 15) – appears in the Health Department's annual report this year.

The report noted: "A different but equally important area of concern is the difficulty experienced under the present system in rationalising regional and national services. Hospital boards may set their own priorities which do not necessarily reflect national or regional needs.

"Over the years services have occasionally developed as a result of local pressures, teaching needs, or the acquisition of local expertise. As a consequence the distribution of these services is in some areas unbalanced, duplicated or both."

Translated, "local pressure" can mean lobbying by a particular board to get a shiny new piece of equipment for dissatisfied staff, pressure by a doctor with special interests to get equipment that may not be suited to the hospital, and voluntary fund-raising to get a piece of equipment, turned down by the department.

And "acquisition of local expertise" usually means the arrival of a new doctor with a particular speciality who is anxious to continue work in the field and puts pressure on the local hospital board to buy the required equipment. Considerations such as financing and under-utilisation can take second place in such instances.

Part of the problem, department officials believe, centres on the administrative set-up of the 29 boards throughout New Zealand.

They are "run" by elected representatives from the local community who in most cases are well-meaning amateurs with no medical background. They thus fall easy prey to highly-skilled doctors lobbying for new equipment.

Also, the medical staff themselves can seek election to hospital boards becoming, as one departmental source told us, "master and servant at the same time".

Each hospital board has a designated purchasing authority up to a certain level of expenditure. Above that level, the department has authority to approve purchases up to $50,000.

For any individual item worth over $50,000 the Minister must sign his approval.

The department philosophy in considering applications by boards for finance to purchase equipment is two-fold:

- To satisfy itself that the purchase is justifiable in terms of the likely work-load;
- To ensure that such a purchase will not result in an unjustifiable, continuing cost.

Approvals can be given through two sources – a minor capital grant or loan money. Applications for loan money approval must go before the Hospital Works Committee, a high-powered trio consisting of the Director-General of Health, Secretary to the Treasury and the Commissioner of Works. Usually, however, their delegated representatives attend the meetings.

But there are no strict criteria regarding the type of equipment to be bought; nor regulations requiring a preference for New Zealand-made equipment where available.

The department is inclined to let the boards make their own choices for a number of reasons: compatability with existing equipment, familiarity of staff with the equipment and possible poor track records by companies with which they dealt before.

The department does have a final veto authority but would rarely use it according to one official.

The questioning of a doctor or staff decision is regarded as extremely sensitive and, ultimately, the individual doctor can refuse to use the equipment purchased for the department, neatly side-stepping any regulations that may be laid down by an interfering officialdom.

Meanwhile, another New Zealand manufacturer has told us of difficulties faced by his company in offering locally-produced equipment to hospital boards in preference to overseas supplies.

He has been involved in a number of unsuccessful attempts to provide plastic-based products to boards.

In one instance, he supplied a board with samples of a product for testing by medical staff. When he had no response, after several months, he contacted the board and was told that there had been no complaints about the product but "nobody knew about it anymore".

In another case he provided samples of a product to a board and again met with no response. In the meantime, he sold a supply to Tonga.

"What do we do next?" he asked. "We've proven our ability to provide these things but get no response. Indifference by the boards is the basic thing you have to go up against."

Management

Safety first — or until the smoko siren shrieks

by Heather Marshall

SAFETY precautions that cost money are resisted by management; those that cost effort and involve personal inconvenience are resisted by staff.

In the middle of apathy and recalcitrance, the company safety officer battles frustration and incipient ulcers, living in apprehension of a major fire or accident. Responsibility for the resulting injuries or deaths is bound to be placed firmly in his lap.

Factory staff and management spend a lot of time talking about safety. But the implementation of their ideas cools enthusiasm.

The factory staff may organise a militant group to approach management. They front up to the general manager or works manager (whichever was slowest in getting a hint of the deputation's formation and couldn't disappear from the plant in time to escape the confrontation).

The leader of the deputation carries a copy of the Factories Act in one hand and an Employers Association simplified version of the relevant trade union award in the other.

The spokesperson begins by warning that if nothing is done about safety standards in the factory, one of the men in screen printing will call in a health inspector to the cafeteria.

This has nothing to do with the subject of the delegation's submissions, but the spokesperson is a bush psychologist and knows that mention of health inspections is a sure way to soften up management and at least ensure an attentive hearing.

The deputation leader brings up the matter of the inadequate number of fire extinguishers. If there was a fire in the warehouse, for example, with all that loose packing lying around half the storemen could be asphixiated or burnt to a crisp while someone was running through extrusion, across the yard to buckles and buttons and through screen printing to the toolroom for the only appliance in working order.

As the general manager (or works manager) seems unmoved by the thought of mass mayhem in the warehouse, the spokesperson adds that thousands of dollors worth of stock could be destroyed.

This stirs the GM (or the WM) into saying that six months ogo there were fire-fighting appliances in good order within 10 metres of any given point throughout the plant. But they had been systematically vandalised by the night shift, who had used them to extinguish cigarette [illegible] before damaging the [illegible] for reasons best known [illegible] themselves.

The spokesperson who [illegible] stayed on at the end of the [illegible] shift to lead the deputation [illegible] second thoughts about [illegible] ing overtime for having [illegible] and asks more humbly if management will be kind enough [illegible] look into the matter. Management promises to [illegible] the safety officer to look into [illegible].

The deputation's [illegible] request is that lines be made on the floor of the factory [illegible] keep administration staff out [illegible] the way of the forklifts because the drivers are getting nervous about the possibility of [illegible] them getting injured. [illegible] nervousness is slowing down production, the [illegible] leader points out.

Management counters [illegible] complaint he has received [illegible] two of the administration [illegible] about reckless driving [illegible] forklifts and the [illegible] cident of one of the [illegible] narrowly escaping a [illegible] jury when the officer [illegible] at great personal risk, [illegible] her in the nick of time [illegible] path of a forklift that [illegible] crushed her against the [illegible] crete wall of the store [illegible] backing at speed.

Furthermore, there [illegible] been rumours reaching management of forklift drivers organising races down the [illegible] aisle of the warehouse, [illegible] the 11-to-seven shift, and [illegible] bets are being taken and [illegible] less speeds reached.

The spokesperson [illegible] the complaints list. There [illegible] been a complaint from there on number nine about the [illegible] from the machine and [illegible] wanted something done [illegible] it before they suffered [illegible] loss.

Management suggests [illegible] tartly that they'd be [illegible] long way towards reducing [illegible] noise in the place if they'd [illegible] their transistors at home [illegible] tune into the same station [illegible] least.

But noise abatement is [illegible] news, and management says the safety officer [illegible] been advised to liaise with [illegible] experts in the field; in the [illegible] term ear muffs are to be made compulsory and in the long term the production engineer [illegible] planning to join a three-year course at Polytech and produce a report at its conclusion. And [illegible] there is nothing else....At this sign of impatience the deputation consolidates behind the spokesperson who says there is more light needed in the engine room and the duck boards in the showers are in a dangerous condition and have made [illegible] greaser wrench his bad [illegible] Again. And he was off [illegible] compo. Again.

At this moment the smoko siren shrieks through the general manager's (or works manager's) window and the deputation decides that the other matters can be taken up with the safety officer [illegible] They thank management [illegible] time and withdraw.

The general manager (or whoever) makes a note to [illegible] the safety officer so [illegible] doesn't get subjected to [illegible] of thing again and tells [illegible] secretary to keep that [illegible] and his henchmen out of [illegible] office in future.

And everything settles [illegible] to normal.

Marketing

Film rides milky way of success

by Lindsey Dawson

BRACE yourselves. The looming presence of Darth Vader in his evil black skid-lid is about to fill our kiddies' nightmares again, along with the spunky Princess Leia, the gallant young knight of the galaxy, Luke Skywalker, and that merry mercenary, Han Solo, and his hairy mate, Chewbacca. The Star Wars team are coming back.

Part Two, entitled "The Empire Strikes Back" blasts onto our screens in December. Actually it's part five. When creator George Lucas wrote his Star Wars saga, he filmed the third part first because it was the most exciting bit, and he thought it was better to make a cracking good movie about a short segment of the story than try to cram the whole thing into one.

Star Wars rocketed to financial fame as the number one movie in the solar system, the little black holes in box-office windows *sucking in $500 million* all over the world.

That was more than enough to finance "The Empire Strikes Back" which cost $23 million, some $3 million over-budget.

Box-office receipts for this one, released for the American holiday season, are already up to $131 million, boosting it into fourth place ahead of "The Godfather".

Filming of the sixth part, to be known as "The Revenge of the Jeddai", begins in September next year. And if it goes like a rocket as well, there's every chance that Lucas might go back to the beginning of the saga and fill us in on how Vader and the archangel Alec Guiness got to be deadly enemies in the first place.

Two of the stars of "Empire", plus producer Gary Kurtz, spent some time in parking orbit in New Zealand recently on a promotional tour.

The chill winds of recession are blowing through American movie houses right now. American movie-goers have been staying away this summer, and according to some film pundits it's all due to "Empire".

The Californian magazine *New West* quoted Clint Eastwood (whose own movie, "Bronco Billie", is struggling financially) as saying that "Empire" opened to such colossal business that it spoiled the market for any film to come. "Over $100 million casts a big shadow," said *New West*.

Kurtz gives the smile of a man on top when this is mentioned to him. But, he says, there are no guarantees that the lucrative tide along the milky way will continue.

"Each film is a gamble," he said. "We knew there was a big advance audience of science fiction fans and people who'd enjoyed the first movie who would be flocking to The Empire Strikes Back, so we couldn't really tell how well it was doing until after the first few weeks."

The gamble was in spending so much money on a sequel, because it is always hard for a second movie to live up to the reputation of the first.

"We didn't try to make an imitation. Great expectations from the public can work against you, and we were aware that some people could be disappointed because this is a darker, more serious analysis of the characters," he said.

American toy department shelves are growning with Star Wars toys and dolls, a spin-off from the movies which has been another pleasant surprise for the producers. Sixty million dolls have been sold worldwide, but it was a difficult battle getting the merchandise off the ground.

"Toy manufacturers generally aren't interested because with motion pictures it's a short-term thing," Kurtz said. "There's a long lead-time — up to 15 months — in designing and setting up manufacturing, and by then the impact of the movie has died."

Lightsaber fighters . . . team comes back into action.

But the engineers at United States-based Kenner Toys were fascinated with the possibilities presented by the science-fiction hardware and took up the challenge.

"The best thing about the toy market is that children use the dolls in creative play. They make their own environments using different materials, and we've had photos from all over the world from children showing us what they've done by using their imagination," he said.

New Zealand is no exception, and Toltoys NZ Ltd, an Australian-NZ joint-venture company handling Star Wars merchandise, is gearing up for a Christmas sales boom.

"We sold 125,000 figures in the first six months after Star Wars first came out. Other movies have come and gone and there have been toys associated with them, but none have been as successful as Star Wars," said Frank Pearce, managing director of Toltoys.

Star Wars generated more than $700,000 worth of toy sales in New Zealand since its first release, and the new movie has spawned a rash of new dolls, and new outfits for the old ones.

"The movie's slogan is Star Wars is Forever. It's starting to look like that in the toy business — children know all about the new movie before it's arrived," said Pearce.

The first Star Wars movie is out of circulation, but Kurtz says there's still plenty of revenue to be made by re-releasing it. They've turned down a massive offer for television rights. Kurtz won't say how much was involved, but "Gone With the Wind" was sold for $25 million to be run once a year for five years.

The cinema industry is undergoing *painful strains* due to the recession, and the changes being forced on it by Pay TV and the video-cassette and video-disc industries.

Big movie-houses are closing down in the United States because of the lack of patronage and Hollywood actors have been on an extended strike because they want their share of the money to be made from the video-cassette and Pay TV boom.

"The strike had to happen," Kurtz said. "Actors have always got residuals from their movies when they're re-run, but they're not covered at all when it comes to new technology. Something has to be worked which will give them fair compensation."

Kurtz has no fears for the future.

"Some of the bigger cinemas may have *to go, but* there will always be a place for viewing movies outside the home," he said. "TV's very passive. I don't think people want all their entertainment at home. They'll always want to go out for social experience. That group communication is important."

Sydney's Hoyt's entertainment centre is an example of the cinema's future, he said.

"They've got seven auditoriums, ranging from 1000 seats down to 200, plus restaurants and games rooms. It's a great meeting place for young people."

At the same time the cost of going to the movies is a deterrent factor, he said.

"It's up to $5 a seat in the States for a first-run movie, and over $6 in London. But that means that second-run cinemas are doing very well, with seat prices going for $2 and $1 for kids, which is a more economical rate if you've got a family."

Video-cassette owners can buy feature films to view at home for between $50 to $65, and library services are being set up too.

But film piracy is creating headaches. "Projectionists sneak movies home, a reel at a time, to avoid detection and run them off on a videotape machine in someone's basement. There's a ready market for them at remote construction sites, oil rigs and in Arab countries where they are banned. Prices for very poor-quality prints are up in the hundreds. But hopefully increased legitimate sale of cassettes will kill the piracy."

Kurtz said he sees the new technology as improving business for minor film-makers.

"The problem with making smaller films is that the cost of distribution is so high. But the new computer technology means that you pay for each programme as you look at it. There'll be scope for such things as ballet or opera because on Pay TV you can recoup your costs even if only 5 per cent of the population want to see it."

But the days of small-time movies are long gone for 40-year-old Kurtz, whose past successes include "American Graffiti" and a long string of horror movies.

He is back in London, planning for the next Star Wars blockbuster while New Zealand fans wait for summer to find out what happens in The Empire Strikes Back.

Will Solo get the princess, will Darth Vader get his just desserts, will Luke Skywalker hoist himself on his own laser sword? If the American experience is anything to go by, Amalgamated Cinemas will have a boomer summer as Kiwis pay to find out.

Energy

Procrastination thwarts public say in planning

by Rae Mazengarb

THE Energy Advisory Committee – the formal channel which the Government claims to have set up to allow public input into energy planning – has yet to be officially named.

As far as the public is concerned, the committee is little more than an idea which has been floating around since the formulation of the Government's *Energy Strategy '79*.

As we went to press last week, it seemed that even some Energy Ministry officials were becoming impatient about the failure to announce the committee members.

And no wonder. The Government's Energy Plan – published some weeks ago – states categorically: "The Energy Advisory Committee has been established to review each annual energy plan and make recommendations for future planning".

Asked who were the members of the committee and what their qualifications were, a departmental official said that so far none had been appointed.

An announcement was expected within a week according to the official's understanding.

Asked about the delay, the official said Energy Minister Bill Birch wanted to announce the appointments personally. His attendance at the World Energy Conference meant the announcement was postponed.

But all the background work for the body's establishment had been completed, and it was just a matter of waiting.

Energy Strategy '79 outlines the functions of the new body, tagged at that stage the Energy Advisory Council (EAC), an appointed body having primarily non-Government representation.

Its main tasks, the document said, was "to annually review the energy plan and make recommendations for future planning".

Likely representation would come from:

- Consumers;
- Industry;
- Professional bodies;
- Planning Council;
- Environmental interests;
- Trade unions;
- The Energy Research and Development Committee (known as the Maiden Committee).

The Government has not envisaged that the EAC would be closely involved with the actual preparation of the Energy Plan, but it would "feed in its views for appropriate incorporation in the document."

The Government's idea is that a 12-member team would operate flexibly, to meet the changing requirements of review and advice from year to year.

But its primary task would be to assess and evaluate the Energy Plan as published and send comments to the Minister, thus providing the Government with complete and co-ordinated feedback and future policy suggestions.

According to the strategy paper, the advisory committee could hold annual public forums to discuss the energy plan "if it felt these were needed".

The Government would take EAC comments into consideration when approving specific projects and input from the council "may change the plan produced in the following year by the Energy Planning Committee", the paper said.

Considering the controversy surrounding some of the proposed energy-related projects, and criticisms of the first Energy Plan, it would seem that the body should be kicked into life smartly.

The Ministry of Energy's 1980 Energy Plan has, for some weeks, been the subject of public discussion without the benefit of co-ordination from a group like the EAC.

It is the first Government publication to detail how different energy developments look into – or conflict – with one another.

It also discusses frankly energy pricing, including the criteria for future price movements.

But critics claim it fails to satisfy its own planning criteria. The demands of the second smelter cannot be met in dry years without breaking the rules laid down by the plan, they say.

And while the plan notes the demands on the coal sector, it does not indicate the very real difficulties involved in meeting those demands.

It also overlooks the severe environmental problems which will be created by those demands.

Other energy forms, such as wood-burners, solar heaters and industrial co-generation, are given inadequate consideration.

The section on electricity makes it clear there will be some problems supplying electricity to a second aluminium smelter.

As *Energywatch* editor Molly Melhuish points out, the problems will come when the Maui gas projects – methanol and synthetic petrol – are using so much gas that there will not be enough to supply electricity in dry years.

There will be power cuts unless every power station is finished on a new tight schedule and there are no major breakdowns in existing stations, Melhuish warns.

"Even the National Development Act may not be fast enough for the crash programme of electricity development the smelter will commit us to," she says.

In dry years, she predicts, the extra demand for energy will have to be met by distillate – gas turbines running on diesel oil – and later on, substantial amounts of fuel oil will be necessary.

The electricity sector plan, not tabled in Parliament as the energy plan was, makes clear that – if we don't sell electricity to the smelter – we can handle the problems resulting from what observers say are the "gross restrictions" of Maui gas use.

The major problems with the aluminium sale will be the high cost of extracting coal at a sufficient rate.

It has been suggested that the shadow cost of open cast mining is essentially the same as the cost of fuel oil.

Melhuish says this is because only 10 per cent of Waikato coal can be got out by open caste mining. Once that has been done, she points out, we will have lost much flexibility and will eventually be forced to fuel oil.

The problems could be made easier with solar heaters and so on – each providing a small but useful component of total energy needs. But the plan almost ignores the alternatives.

Other energy observers point to the recyclable feature of aluminium and suggest the power planners have failed to take that into account in their pricing policies.

As one put it, once you make aluminium it is in effect an energy bank, or "frozen electricity", which can be tapped over and over again.

Fuel-saving flight planning promulgated

CHRISTCHURCH provided a world stage for promulgating an aviation fuel-saving technique which could, particularly, save $30 to $70 an hour of flight time.

A paper on computer flight planning was presented to the 33rd annual seminar of the Flight Safety Foundation of Washington DC.

The foundation is an international organisation dedicated to improving flight safety. The Christchurch meeting was its first outside North America or Europe.

Louis M Reinkens, of the Lockheed Aircraft Services Company, explained how a computer stores the performance details of 100 different aircraft types, together with constantly updated weather information.

Use of this stored information results in up to 500,000 calculations in two minutes while the computer works out what flight plans should be used for different aircraft types, depending on the route to be undertaken.

Claims for the system range from average fuel savings of $9000 for a particular flight to savings of $30 to $70 an hour of flight time.

Although more than 300 customers are using the Lockhead system on a worldwide basis, none of the airlines operating out of New Zealand are using it. Lockheed was interested in talking to them.

Air New Zealand has been practising fuel economy for at least 15 years, long before the Americans had to begin thinking about it seriously. In co-operation with McDonnell Douglas, the airline even had its jets slowed ever so slightly to cut its fuel consumption across the Pacific.

While American airlines fought to cut a few minutes from their domestic flight times, Air New Zealand took the more practical (and profitable) view that, to the passenger, the addition of a few minutes to an Auckland-Los Angeles flight from dusk to dawn to mid-afternoon, is barely noticeable. Lower fuel usage meant big fuel savings.

Over the years Air New Zealand has built up extensive computer data on each of its aero engines and on each aircraft. This enabled it to perfect its system of getting the most economic performance from each.

Constant checks on its fuel flow usage is a continuing exercise.

Manufacturing

Private enterprisers prepare to tackle free traders

PRIVATE enterprise is lannching a New Zealand trade exhibition appropriately in Hong Kong.

The free-trading British Crown colony has been shunned by exporters who find its fierce competitioo too hot. But the potential is vast. Not only are the colony's 5 million predominantly Chinese growing richer by the day, but China is now opening the door to Western trade.

The exhibition is being organised by Christchurch-based Aqua Kleen New Zealand Ltd and Orient Pioneer Exhibitions Ltd of Hong Kong.

Aqua Kleens' managing-director Kevin Ryall expects to be overwhelmed with applications from the 500 companies notified.

"It will be a sad reflection or. exporters if we are not," he said.

Assuming there are more companies willing to go than the 930 square metres will accommodate Aqua Kleen will select un the basis of quality and reputation. Already over 400 square metres have been requested.

Small companies waating to get into exporting will be given prefereoce over those already well established in overseas markets.

But the ability ro perform will be critical, Ryall emphasises. "There is nothing worae than putting a company up there which says it can deliver and then cannot," he said.

Exhibitors will pay a minimum of $1400 for 10 square metres in the Regent Hotel's ballroom, itself a tribure to New Zealand exporting success. The hotel has been carpeted throughout by Feltex.

The exhibition will be trade only for five daya in February and the promotors are offering a range of back up services including assistance with translations and help in finding a Hong Kong agent for future salea.

Ryall makes no secret that the exhibition is a commercial venture for Aqua Kleen and will be the first of several the company is planning. The next is likely tu he in Taiwan.

Aqua Kleen is a relatively new firm with Ryall, his wife Jacqueline and Colin Dnyle as the unly shareholders.

Ryall, who gave up teaching in 1973, was the chairman of the organising committee for the Bank of New Zealand Commonwealth Games Track and Field meet.

Aqua Kleen was set up to manufacture plastic disposable toothbrushes and other products under licence for Hong Kong companies.

Manufacturers slow to use licence by-pass

by Allan Parker

TRADE and Industry officials are wondering at the relucrance of local manufacturers to call on the "manifestly excessive" policy to by-pass high-priced, low-quality New Zealand material components and buy overseas.

The policy, introduced in the 1979 Budget, was deaigned to allow local industry to get their own imporr licences in cases where the price offered by local suppliers for materials and components was "manifestly excessive" and the technology or quality "significantly deficient" compared with overseas supplies.

But the department reports: "It has not exacrly generated a tidal wave of new import licences — not much more rhan a million dollars worth has been granted up to the end of May 1980."

Which has the department confused. Assistanr secretary John Belgrave nutes that the policy was intruduced in response to complaints hy local manufacturers ahout the price of locally-source materials and components.

In a recent issue of the *Customs Bulletin*, T and I's general industries division director Fergus McLean wrote: "The department had in fact often been requested to consider the issue of imporr licences on the grounds of the alleged excessive cost of domestic alternatives at various times in the past. Very few such requests were ever approved though."

Belgrave said the department had tried to spread the word about the policy "as widely as possible".

The department and its Minister, Lanre McSchneider, have repeatedly referred to it in articles and speeches. But Belgrave said it was "somewhat surprised" at the meagre response.

Several reasons have been put forward for this.

- Manufacturers are still largely unaware of the policy;
- The mere fact of the policy being in place may be forcing local suppliers to hold costs down;
- Local industry suppliers may he more efficient than many think.

The policy provides for consultation with the supplier when a complaint is made or an import licence requested by a manufacturer.

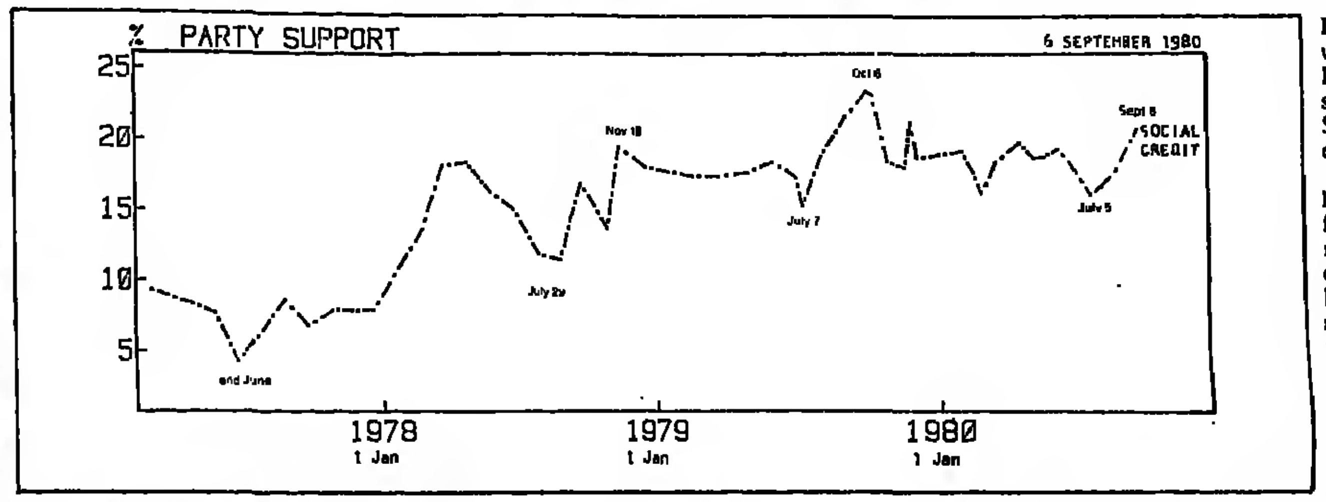
Belgrave said that a number of those suppliers had brought their prices down when consulted by the department's officers. In one case, the prices dropped by 40 per cent.

Generally, however, the department's trumpeting appear to have fallen on deaf ears.

The pollsters

Socreds spring buds spread in public polls

by Colin James



FOR each of the past three years Social Credit has done well in the public opinion polls in the spring, each time reaching a higher peak than before. Is this happening now?

The most recent Heylen Poll recorded Social Credit at 21.0 per cenr — up 5 percentage points since July 5 and 3.6 since August 9.

In itself, this does nor mean much. But when one examines what has happened in the Heylen Poll readings over the past three years, the matter becomes a little more statistically interesting.

The accompanying graph gives the Heylen readings over the past three years.

The poll's measurement of Social Credit supporr has been at its lowest in midwinter of each year from 1977 onwards. Then it has climbed — to peaks of 8.6 per cent in late August, 1977 (7.9 per cent in late October), 19.5 per cenr on November 18 1978, and 23.5 per cent on October 6 1979.

Each time (except in early 1978, when the Rangitikei by-election was a special factor), the tide has receded after the late-year peak. But each time the succeeding high tide has been higher.

Logically, after the East Coast Bays publicity, we can expect Social Credit suppoti in the early October poll to be up on the September figure — and probably above last year's peak.

Then, if past years are a guide, we could expect the tide to recede over the summer — but, if past years are a guide, not quite as far as this year — ready for another climb just before the 1981 election.

Before anyone gets carried away with the apparent inevitability of this scenario, it needs to be emphasised that one can draw no conclusions from pasr statistics as to what may happen in the future.

This spring's rise might, for instance, be arributed principally to the East Coast Bays windfall, just as Rangirikei helped in early 1978 (although one should remember that after Rangiukei, support did not fall back to 1977 levels).

But if Social Credit is pulling in real support this spring, who is it hurting most?

National may have lost the seat in East Coast Bays, but it was Labour that lost the votes.

The breakdown of Heylen data on Social Credit support over the past two years have shown, in by far the majority of months, that Labour has contributed more cooverts to the league than National.

In the September poll, for example, 3.7 percentage points out of Social Credit's total of 21.0 were shown as coming from Labour, compared with 1.5 from Natinnal.

In the September pnll, for example, 3.7 perceniage points out of Social Credit's total nf 21.0 were shown as coming from Labour, compared with 1.5 from National.

The difficulty for party watchers is to know where within Lahour supporr that slippage is occurring. *NBR* hopes to have socio-economic data from the Heylen Poll later this year which will give some indication of the types of Labour voters most vulnerable to the Socred message.

Geographically, there may well be a difference in types of electorates. In Onehunga, Labour held its vote; in East Coast Bays it slid away in landslip proportions.

The swing from Lahour to Social Credit (as a proportion of the total valid vote) was 16.5 per cent.

Broadly, rhis swing was strongest in the south in Glenfield and from Browns Bay north. In Sunnynook, an area of lower-cost housing in Glenfield rhat could, in 1978, be described as a Labour stronghold, the Labour-Social Credit swing was 22.8 per cenr and 24.2 per cent (on provisional figures) in the two polling places.

Torbay, in the far north of rhe electorate, is also an area of lower-cost oew housing and it, too, recorded high Labour-Socred swings — from 19.6 per cent to 24.5 per cent.

These losses, 413 votes in Sunnynook, 466 in Browns Bay and 448 in Torbay, played an important part in National's defeat.

National, on rhe other hand, kept its vote loss relatively low. In Campbell's Bay, Mairangi Bay and Waiake — three of its strongest areas in 1978 — is actually increased its vote. In its other two above-average areas in 1978 — the Forrest Hill end of Glenfield and neighbourling Castor Bay — it lost votes, but still increased its share of the votea.

In Campbell's Bay, candidate Don Brash's home suburb, National even managed a small swing against Social Credit.

The pattern that emerges from the polling place analysis is:

- Where National was strong in 1978, it did relatively well in 1980;
- Where Labour was strong in 1978, it did relatively poorly in 1980;
- Social Credit's above-average gains were in areas where it did berrer rhan average in 1978, those where Lahour did better than average and those where National did less well than average.

On the face of it, this is a relatively comfnrting result for National — except for one point: rhe 1978 National Alternarive vote. How much of that came from National in the first place is nor known — but it seema douhtful that National got a great deal of it hack in 1980.

This may explain the apparent discrepancy between the East Coast Ilays result, showing Lahnur losses ro Social Credit, wirh rhe nationwide Heylen Poll on the same day, which shows a National drop and Social Credit rise of roughly equal amounts.

What looks on the face of it to have been a hold-the-line result for National in East Coasr Bays, may in reality represent a drop compared with what it might have expected in 1978 in the absence of a National Alternative candidate.

The voting shift in one pocket within rhe electorate may also deserve some artention from National strategists.

The voting shift in one high National-Socred swings were recorded that cannot simply be arributed to high Labour losses as rhey can elsewhere in the electorate. Labour there held its vote berter than average and in one pulling pluce managed its only swing from National.

Money market

Local financiers import Kiwi banking system

by Allan Parker

NEW ZEALAND's major trading and merchant banks are being offered one of the most sophisticated computer-based banking systems in the world – developed by a New Zealand company.

But, ironically, the programme must be bought from Britain because the company is based in Windsor where it has ready access to its major international markets and latest trends in transnational banking.

The Development Finance Corporation is the first to purchase the software programme – developed by Kapiti Associates Ltd – and has secured marketing rights for New Zealand.

DFC financial controller Michael Lorimer describes the system – called Kapiti International Banking System (KIBS) as "extremely sophisticated".

His judgement is backed up by the impressive list of clients who have bought the programme. They include Bank of America International Ltd, Irving Trust Company, Manufacturers Hanover Trust Company, Arab Bank Ltd, United California Bank and Bank of China.

Although the company's centre of operations and development work is just outside London, Kapiti Associates Ltd remains a New Zealand-registered company and, in fact, repatriates profits to New Zealand.

The key technical people are all New Zealanders – most started their programming careers with Databank in the mid-1960s. In the way of fledgling Kiwis, the call of the overseas trip beckoned them to London.

One, John Kennedy, worked in the programming industry in London and did some programming work for the Bank of New Zealand office there. He was invited later by another bank to develop a computer system for it.

Now, the company has 30 technical staff at its Windsor headquarters. Until recently, most of this staff were New Zealanders.

General manager Brooke Williamson – who used to be data-processing manager for Pye in Auckland – was in Wellington recently to talk with DFC and potential clients.

He emphasised that "we have got to be based in the centre of things, our development work has to be in London".

The company retains a preference for New Zealand employees, he noted. In fact, that preference has already had some spin-off effect for New Zealand; a number of New Zealand staff who have worked with the company have since returned with the skills developed by working for Kapiti Associates.

Williamson is now in Australia, trying to sell the system to merchant and trading banks there. He has identified 150 possible clients there and hopes that if a reasonable number of sales can be generated both here and in Australia, a technical support office could be established in New Zealand to service both markets.

DFC involvement with the company started when staff began looking for such a system to handle the rapidly-increasing flow of foreign exchange transactions, both by the corporation and its larger client companies.

Financial controller Lorimer said: "We inquired what was available on the world market and discovered there were only two systems, Kapiti and MIDAS, put out by a British-based management consultancy."

At any one time, DFC has foreign currency forward purchases of between $150 million to $200 million. as well, it has commercial paper borrowings on the United States market of $40 million and two standby borrowings of $40 million each. Increasingly, it is becoming involved in purchases of foreign currencies for large New Zealand companies and other government corporations.

The Kapiti system, the corporation believes, will allow it to maintain the tight financial and accountancy information control required to handle such dealings.

Lorimer said: "Foreign exchange transactions are becoming more and more important. There has been a vast increase in foreign exchange loans by New Zealand companies."

Platinum panacea never delivered

by Warren Berryman

SEEKING a hedge against inflation, New Zealand investors rushed to buy platinum coins from Pantheon Products International by mail order. But coins were not delivered and some investors say they were left with no coins and no money.

Pantheon Products, an unregistered Auckland company run by former bankrupt Brian Jacobson, mounted a large newspaper advertising campaign late last year. The ads promoted platinum coins as an "inflation-proof and profitable investment".

On receipt of investors' money, the ad promised, coins would be delivered in about two months.

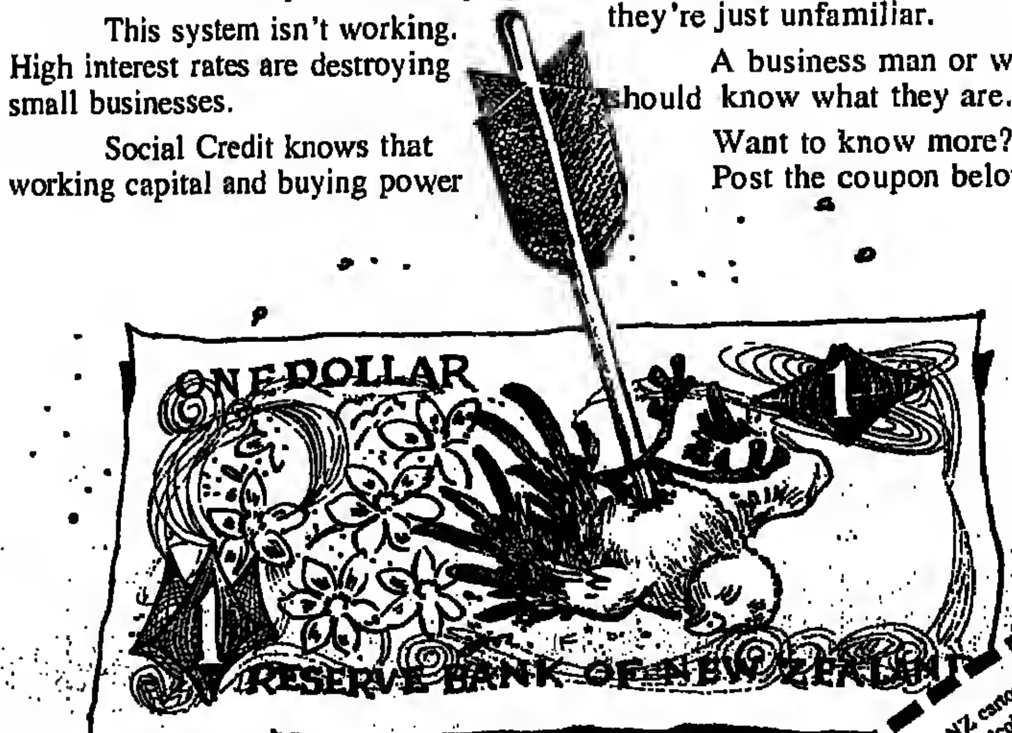
That was nine months ago. Complaints have been received by *National Business Review*, the Consumer's Institute and the Fraud Squad from people who sent money but did not receive coins.

Jacobson said then he started in the platinum coin business "on a shoestring". He said his partner put up $3000 for advertising and that he had taken in about $50,000 from investors at that time.

Last year Jacobson said the coins were to be struck by PSI-Sonos of Zurich. New Zealand coin and bullion dealers questioned by *NBR* know nothing about this company.

Platinum might not have been such a good hedge against inflation, even if the coins had been delivered. Last November's controlled platinum price in London was £6.06 a gram. Early this month it was £6.49 a gram – an increase nowhere near matching the 18 per cent inflation rate.

The platinum deal does not seem to have interrupted Jacobson's record of bad debts, debt collections, and judgments for debt, dating at least from 1969 to the middle of this year.



The modern office

Senior computer job shortage for careerists

by Peter Isaac

THE extraordinary growth of office equipment systems during the last 10 years has tended to leave the human factor floundering along behind in a turbulent economic wake.

"For example," says Bob Jones, managing director of IDPE, "some career computer people get locked into data processing – and management just will not let them out of it."

IDPE is New Zealand's leading specialist in staff selection in business equipment and data processing employment.

"If someone in middle management finds that EDP does not offer them advancement opportunities then they should not be afraid to move sideways."

The problem, Jones says "is that opportunities at a senior level are very limited indeed. Where employees are faced with a situation offering no further prospects they are usually forced to look outside the firm, to another organisation."

IDPE director Peter Smales recently commented that the days of entry into the data processing and business equipment field without formal qualifications had disappeared – for ever. Employers are now asking for "very specific" experience in operations and development he said.

Jones warns against a sense of complacency that might lead to the belief that a career in computers will always represent a guaranteed livelihood.

"The computer industry, as any other industry, will pass through fluctuating demands in employment. There is nothing magic about it that insulates it from the vagaries of the marketplace."

Specifically, Jones warns that the development of user-oriented equipment and software packages must slow down the growth in demand for programmers, specially in the commercial applications area.

One of the biggest trends he sees developing is the "gradual blurring" of the distinction between computers and the rest of the business equipment field.

"It is getting harder to find the sharp line that used to distinguish between office equipment and computers."

The irrevocable trend toward a fully mechanised office has no immediate solution to what Jones regards as one of the biggest problems for business machinery careerists. "The fact is that in this particular industry career progression fits within an exceptionally narrow pyramid.

"There is rapid advancement at the broad base of the pyramid, this advancement starts to drop sharply further upwards as the pyramid narrows."

The only defence against this was for computer and business equipment employees to constantly keep their job options open. "The industry is full of people who have grown out of their job and who frequently do not even know it."

He believes that the demand for technical specialists in high-skill areas will increase specially in communications systems. But employers will now increasingly look towards people who can interface with the rest of the business community. "The days of the uncommunicative, sullen, boffin-type" were definitely drawing to a close he said.

Bob Jones ... nothing magic about computer industry

Jones stresses that the industry, which is itself devoted to promoting labour saving methods, "should not lose sight of the fact that much of the labour-saving is taking place within the data processing industry.

"It is now crucial for anyone in business sytems employment to be skilled in their chosen field, yet at the same time they must remember that changing times may inevitably mean a change of job at some stage."

IDPE was frequently asked to counsel individuals in computer management who felt they had hit their head on the top of the promotion system and felt the job had no more challenges for them.

"We must identify the person's skills. They might not yet be even 40, but there will be justifiable concern at having run out of a career path."

Those in computer management have generally built up skills and experience in two areas: the management of staff and the management of advanced technical systems.

"For many people, the unavoidable fact may be that these skills, highly valued skills, must then have to be applied outside the computer and business equipment industry."

Transport

Port structure offers lesson in applied competitions

by Bob Stott

AT a time when competition in transport is being widely canvassed, lessons may be learned from one area where competition has been largely unfettered – our ports.

The country has long had a proliferation of export ports. The reasons are largely a matter of historical geography. With poor inland communications, the country was settled from the sea. Towns grew up round ports and eventually exported from those ports.

Each port, administered locally, has fought to survive. New facilities have been provided in an effort to attract trade or to hold existing traffic.

The result? Long ago, shipping companies, appalled at the cost of having their ships spending a month or more on the coast, got together with primary producer boards and started a two-port loading system. Later containerisation was to accelerate the process of centralisation, a process which was initiated by the users and which in effect went against the principle of free competition.

For while each port worked to hang on to what cargo it had, the lines and the producer boards were urging that cargo be concentrated on a few ports.

Some rationalisation has been achieved – we have only five container ports (counting Mt Maunganui and its "multi-purpose" crane) and in total we're down to about a dozen export ports.

These ports still compete, but regrettably the charges they impose on users show no apparent benefits from such competition. Since October 1978, the national average port charges annual increase has been 16.8 per cent, something ahead of the rate of inflation, and well ahead of most freight rates set by overseas shipping lines. The inflation in port charges hardly seems imported.

If it is not acceptable to assume that there's something wrong with the way we administer our ports – in other words something wrong with the system of individual elected harbour boards – then it can perhaps be generally agreed that any system is capable of improvement.

At a time when there is very real concern at the way harbour charges are rising, would it not be timely to set up an inquiry into port administration?

I know of no other country which runs its ports the way New Zealand does, with its plethora of elected boards. Instead they are run by appointed experts. Usually port authorities control large regions, by New Zealand standards . . . the whole state of New South Wales, the whole country in the case of South Africa.

Consider New South Wales, as a close-to-home example. The Maritime Services Board based in Sydney controls all ports in the state (effectively Sydney, Botany Bay, Port Kembla and Newcastle plus a few minor ones). The board is responsible to the Minister for Public Works and has seven commissioners each appointed by the State Governor, three being full time and enjoying seven-year terms.

The remainder are appointed for three-year terms – one must be identified with the interests of Newcastle, two are selected because of their specialised knowledge an done is elected by officers and employees of the board.

As well as carrying out the duties handled by the elected boards in New Zealand, the NSW board has responsibility for waterways management, licensing of power boat drivers, enforcement of navigation laws and conduct of inquiries into marine accidents and other duties all generally carried out by the Ministry of Transport in New Zealand.

Board President John Wallace said the New South Wales system enabled the board to look at the state's port system in total. Facilities were able to be provided where needed, and without duplication. There was a commonality of practice throughout the State regarding port charges, administration and so on, and it was possible to achieve economies of scale in many areas. Competition between ports would be counter-productive, at least in New South Wales.

Advisory boards at Newcastle and Port Kembla keep the commissioners in touch with local feeling and opinion – the advisory boards are composed of representatives from the board itself, from shipping lines, large customers, the railways, labour, city councils and Chambers of Commerce as thought appropriate.

The local boards, Wallace said, got a bit parochial at times, but in practise there was no real difficulty here. The full board meets regularly in the outports as another way of keeping in touch.

Over the past five years, port charges in New South Wales have increased on average 10 per cent a year, equal to the rate of inflation. An interesting point is that, historically, outwards charges have been set at half the inwards rate, a subtle way of promoting exports and penalising imports. In 1978-79 the board ended the year with a net surplus of $118,080. Revenue was $109,082,141.

What works for New South Wales may not necessarily work for New Zealand. But we do have an apparently unique way of running our ports, and we don't seem to be achieving a low-cost operation, to the detriment of our exporters.

An inquiry into port administration would seem to offer a better return to the nation than arguing over – for example – whether milk should be packaged in glass bottles or cardboard cartons.

Media

Averting the *Dominion*'s declining readership

by Rae Mazengarb

AT the time of Wilson and Horton's bid for the *Manawatu Evening Standard* — in which INL recently acquired a 26 per cent interest — *Dominion* editorial staff were openly complaining about their paper's image.

Criticism of the *Dominion's* editorial performance is also contained in a marketing report prepared in recent weeks by Ogilvy and Mather (New Zealand) Ltd for INL.

The report — based on McNair research and O and M's analysis of the market and the product — details a strategy aimed at reversing the *Dominion's* declining readership. Its objectives: to increase paid-for circulation to at least 75,000 copies, increase home delivery to 20,000 copies, and increase advertising content and revenue.

O and M say the *Dominion* is an "atypical" morning paper, compared with morning papers in other main centres here and abroad, since it is not the capital's main paper. On the other hand the *Evening Post* — which clearly is the main paper — has its position by default.

"There is an obvious position in the market for an 'important' morning paper — which would not damage the *Evening Posts*' position," the report says.

O and M believes increased home delivery is the key to long-term, consistent, increased circulation. But reader criticism shows the *Dominion* does not meet people's needs.

Consistently, across all buyer segments, the primary need is for news — international, national and local, according to the research. The *Dominion* is seen not to provide enough news, update news, or informed news comment.

Readers in the circulation area said they would buy a second paper if it was a "quality newspaper". Physically, the *Dominion* did not look like a worthwhile quality paper, according to surveyed readers.

Front-page content looked lightweight and trivial and the paper was often thin.

O and M recommended: "The product must be changed physically to meet people's need and their perceptions of the way an important necessary newspaper should look."

O and M recommended:

- The *Dominion* be positioned as "The only newspaper that brings you the news you need to know — first";
- That an image to support that position be projected: "The demand is clearly for a newspaper that is authoritative, serious, informative";
- That the product be changed physically to meet people's perceptions of what they want. For instance, a front page with important news in brief — "(no trivia)" — with indexes to indepth stories inside;
- An advertising strategy directed toward lifting the paper's image.

At INL's annual meeting, managing-director Alan Burnet said the content of newspapers owned by the group was under constant review.

"I do not wish to pretend we are completely satisfied with the content of our newspapers," he said, according to a *Dominion* report.

WILSON and Horton Limited — publishers of the New Zealand Herald — is making its bid for the Palmerston North-based Manawatu Standard Limited, and posing threat to Independent Newspapers Limited's entrenched position in the lower North Island, at a time when the Wellington-based publishing group is under pressure.

At INL's recent annual general meeting, directors made clear the company's profit level last year was inadequate with a steep downturn in the latter half of the March 1979/80 year.

The company was having problems with its recently acquired subsidiary, Concept Video (NZ) Ltd, and directors were dissatisfied with the content of the group's newspapers.

Asked if the board would adopt the O and M recommendations, Burnet said the report was private to the company and had no place being discussed publicly.

The *Dominion* was a good newspaper, but that did not mean the company should feel complacent about it, he said.

Asked if he could confirm staff expressions of dissatisfaction with editorial content in representations to management, he said such expressions were "good and healthy". He would not like to think there was anything "spectacular" about staff offering criticism. The fact that staff could communicate their opinions to management was "first class", he said.

It would be wrong to suggest that *Dominion* staff had not expressed some dissatisfaction recently, but so had staff from "two other papers also within the group".

If the intention was to move the *Dominion* up market (in line with the O and M recommendations), had such a policy been spelt out at the time of Ted Frost's appointment as editor?

"The policy has always been clear," Burnet said, but "it had been difficult to get the ... capacity to produce what we want to produce".

The night operation had been a "struggle", but it was improving all the time, he said.

Burnet said circulation had recently "showing some encouraging trends".

The degree of increase needed to lift circulation to the 75,000 target suggested in the O and M report was "in excess of 10 per cent", Burnet said.

NBR understands that after reaching a low of 58,000 in October 1978, circulation has climbed slowly to about 62,000. It is understood, too, that price rises in the next few months will take the *Dominion* to 20 cents — a price which could dampen management's plans for growth.

INL's newspaper stable includes *Truth*, *Sunday News*, *Waikato Times*, the *Southland Times* and the *Evening Post*, plus several suburban community papers. Burnet said all were contributing to profitability "in varying degrees"

Media

Video firm flags but Burnet confident in Concept

by Rae Mazengarb

INL's television commercial-making subsidiary, Concept Video, has performed disappointingly since it was acquired by INL in 1978.

The directors said in this year's annual report: "At the time of the half-yearly announcement, it appeared likely that this division, having written off all preliminary expenses and establishment costs, could break even in the second half-year. Unfortunately (this) was not achieved as this division encountered technical problems in its highly specialised equipment and suffered from lack of experience in a sophisticated market."

The company has been the subject of recent speculation which *NBR* understands has made staff uncertain about the future.

Donn Lock, the original founder of the company, was dismissed last year in the wake of the INL takeover, and there has been talk of recent dismissals of top personnel.

INL management denied there have been dismissals. Marketing director Bay Shaw's contract has expired, and chief executive Mike Mune is on leave.

INL has put in an acting general manager as a temporary measure, but sources say that neither Mune nor Shaw will be coming back.

A pamphlet put out by Concept Video in June last year names eight key personnel. If rumours are correct, only three of these remain in the same positions 18 months later.

It is rumoured that Shaw, Mune and another former Concept Video employee may soon launch their own private home video production/publishing company.

Alan Burnet . . . "no comment."

On top of management upheavals, there is talk of losses of more than $400,000. INL managing-director Alan Burnet says they are not that high.

The problems do appear severe enough to give credence to suggestions that INL might wish to rid itself of the company. Speculation of a possible takeover bid from Auckland's Videom and overtures from Rupert Murdoch (who already has a stake in INL) are rife in the industry. Both parties are said to have been seeking to assess Concept Video's potential.

Asked if Murdoch had approached INL concerning a possible takeover of Concept Video, Burnet said: "No comment." INL "will keep all options open," but it was the "present intention" to maintain ownership of the investment in Concept Video, Burnet said.

Concept Video had not been as efficient as had been hoped, but because of the substantial Australian tax incentives and Australia's free entry to our market compared with our restricted entry into theirs, the trading situation was "completely unfair", Burnet said.

Film industry sources agree this is one problem, but they say Concept Video's major problems stem chiefly from a failure by INL management to understand the medium; a desire to get into production work rather than providing a first-class post-production service (required by film people and advertisers alike); a lack of essential post-production equipment; staff ignorance of the industry and current trends; a failure to go to the industry to ask what people want; and a failure to serve the industry and heed the wishes of clients.

Motion Pictures Limited producer Ian Gibbons said that, in its present form, it was difficult for Concept Video to break even. One post-production job completed at Concept Video took four hours instead of one, he claimed.

He said he recently spent a whole day working at Concept Video but because of equipment failure achieved nothing. That meant a loss to his own company of an estimated $500 of productive time.

Sources estimate that Concept Video is operating at only 40 per cent capacity after two years' operation. $1 to $2 million is tied up in equipment.

They say the company should "go smaller", invest in appropriate management and equipment, and concentrate on post-production work; which is a growth business overseas.

The operation should run 16 hours a day, and if need be, down-time should be sold to independent producers for programmes, they say.

Burnet admits there is a degree of dissatisfaction with Concept Video's performance, but is confident that "we can still do a lot with it".

On another front, the Wilson and Horton bid to move into Palmerston North bodes ominously for INL. It has been suggested that if the takeover succeeds, it is merely a matter of time before the *New Zealand Herald* makes a move to Wellington, INL's domain.

It is rumoured that if INL tries to increase its holding in the *Manawatu Evening Standard*, a complaint will be laid with the Examiner of Commercial Practices under the takeover/mergers/monopolies provisions.

So far the examiner has not been approached to look at the situation, but it is understood he may shortly be looking into the publishing situation.

Burnet does not believe the *New Zealand Herald* is a threat to INL's position in the lower part of the North Island, but said: "We must take all steps to protect our interests, and will continue to do so."

Refering to INL's involvement in the *Manawatu Evening Standard* he said Palmerston North was an "important city" for his publishing company.

But Wilson and Horton is confident it would be welcomed into that city by local business interests.

As former *Manawatu Evening Standard* chairman J B Nash (who "resigned" as chairman of the board soon after INL bought up its interest in the family-owned company) has observed: "A lot of people do not forget the Wellington Publishing Company (now part of INL) bought the *Times* newspaper in Palmerston North and closed it down overnight."

Letters

Quigley concept deficiencies

YOUR Economics Correspondent says that "if Quigley is really committed to cutting back Government spending he should look close to home before preaching to other ministers" (*NBR*, August 25). The implication of a double standard relates, in this article, to the Minister's announcement in early August that the income limit and other criteria for home improvement loans were to "be scrapped".

There have been comments recently (NZ Institute of Public Administration conference, August 15) on certain deficiencies in what is known in some circles as "the Quigley concept".

The setting of upper aggregate expenditure limits and cash ceilings, the determination of expenditure priorities, the allocation of an "additional spending pool", and the grouping of votes for control purposes require the sustained application of informed intelligence, determination and energy in quarters where these qualities are so often in short supply – among bureaucrats and politicians.

Given the history of attempts by people working in central government over the past 15 years or so, it is my view that the Quigley approach is unlikely to produce significant reductions in the overall levels of public sector spending while other structural elements remain unchanged.

This does not, however, preclude the fact that the Quigley approach has considerable potential merit in terms of improving the quality of resource allocation in the public sector. A change in the rate of spending may or may not occur, but there are good grounds for attempting to improve the efficiency, economy and accountability of those persons who make spending decisions.

For a number of years, devices such as the Committee of Officials on Public Expenditure (COPE) and the Cabinet Committee on Expenditure have served a monitoring purpose.

The costs of actual and proposed government policies are examined (still predominantly in input terms) and the costs and benefits (in so far as these can be quantified) are "looked at". The systems (which still fly a tatty Planning Programming Budgeting Systems banner) are uneven, relatively crude, heavily biased by recurrent experiences such as general elections and weighted down by habitual forms of political patronage built up by ministers and departments over the years. But those who make determining decisions in and around central government have considerably more, and significantly better, information on which to base those decisions than they had, say 10 years ago.

What Mr Quigley is advocating (and it is by no means a novel argument) is that costs and benefits should not only be examined: *they should be weighed against each other.* The Minister and his advisers hope that given an environment of disciplined decision-making, and a better educated decision-making elite, some fat will be shaved off the taxpayers' massive public sector bill. This is probably less important (because it is less capable of realisation) than the accompanying objective: to motivate and educate and forcibly nudge those who are responsible for spending public money towards a system in which they actively weigh up the inter-related costs and benefits of expenditure in various areas of governmental interest and involvement.

It is unrealistic to expect that on his own patch the Minister will be any more or less vulnerable to political pressure than his Cabinet colleagues, or his advisers.

It is certainly premature to jump on any minister who is publicly able to change his mind among so many who engage in the most tortuous deceptions in order to avoid being seen to do the same.

If Mr Quigley comes across as holier than thou in "preaching" to the Wellington elites, then there is some justification for his actions – public sector planning and expenditure has often been, and in many areas remains, scandalously profligate, politically irresponsible, socially insensitive and economically ignorant.

Judith Aitken
Wellington

Successes of campaign

IN your *NBR* of September 1 you have an article entitled "Apartheid splits workers". This article refers to the very successful campaign we are running to draw the public's attention to NZI and South British Insurance Companies investment in South Africa.

It surprises me that a magazine such as yours, which has been described as containing the most authoritative political comment found in New Zealand, has failed dismally in informing it's readers about the background to our campaign.

NZI's chairman, Mr A Hellaby, has informed us that our campaign has resulted in his company's shares being "undervalued". Furthermore, at one stage NZI's shares were not listed on the Wellington Stock Exchange following the company's aborted annual general meeting on August 15 this year.

We do not expect a business paper such as yours to be sympathetic to our campaign, but we do expect you to meet the basic "rule of thumb" for all working journalists – to present both sides of every story.

To the best of my knowledge, you have neither made any effort to contact my campaign, or present your readers with a detailed history of why we have successfully taken on two of New Zealand's most powerful public companies.

Come on, *NBR*, is the success of our campaign getting under your skin?

R J A Cathbert
Treasurer
Insurance Companies Campaign

Developing dogmas

ALL dogmas develop out of widespread perception of an obvious truth. Socialism grew from the fact that capitalism was obviously unfair in many ways. Those subject to hardships struggled to improve their lot. Those who felt the injustices dreamed of using the power of government to create utopia. The socialist welfare state added to capitalism produced our present mixed economy.

During the depression following World War One there was an "over supply" of goods accompanied by unemployment and a tightening of credit. It was obvious that there was a purchasing power gap for labour, that is unemployment, and a purchasing power gap for unsold goods on the shelves. Social Credit was born from the perception of the obvious fact that there was some sort of purchasing power gap in the then existing system.

Things muddled along in the way things usually muddle along in human imperfection. The post World War One depression was serious but not catastrophic. A dozen years later the whole system threatened to throw itself into the discard in the great depression.

University academics gain their comfortable, safe, ivory tower niches by passing examinations regurgitating the dogmas of the "accepted wisdom". The great depression convinced politicians, financiers and ordinary people that something was very wrong. It even moved academic economists to question the perfection of their theories. Social credit gained a substantial core of dedicated dogmatists who felt in their bones that they had the answer to the obvious purchasing power gap.

Deficit financing was forced on governments to pay unemployment benefits and keep the system from collapse. Academic theorists muddled capitalist theory to explain and justify that practice. Deficit financing became theoretically respectable. It filled the purchasing power gap more or less satisfactorily as long as people generally did not recognise that deficit financing inevitably leads to growing inflation.

Over the 40 years following the great depression the theory and practice of deficit financing gradually replaced the capitalist theory that budgets must be balanced in the long run. World wide it is now obvious that continuous deficit financing is leading to the ever shrinking size of money units For the first time widespread and growing unemployment is accompanying high inflation rates.

The political trend is towards the right which claims to know how to control inflation. Social Credit proposes radical money system changes. Except for that it is conservative and benefits from the swing in that direction.

The voters of the East Coast Bays electorate have decided to give Social Credit a go at least to the extent of one more voice in Parliament. In doing that they turned down Labour and more socialism as an alternative to National.

It is not mere chance that the defeated National candidate is a top academic economist and apologist for the "conventional wisdom". That sort of thinking is now muddling New Zealand and the whole world into something like great depression. We are now getting deeper and deeper into what the historians of the future may see as the paralysis of the great stagflation!

John R Perkins
Stabilized Ownership
Tauranga

"When did we lost open this suggestion box?"

Entrepreneurs

Doubts surround Oskar's latest bid to strike oil

(IN our last two issues, *National Business Review* has looked into the activities of the Kaipara Dairy Company and Kaipara Edible Oils Refinery Ltd, and their association with Paraguayan entrepreneur Shrian Oskar.

In this article, we raise questions about the viability of plans by another Oskar venture — the Whangarei Oil Extraction Co Ltd — and show some of the problems its project is facing.)

NEW Zealand consumes about 25,000 tonnes of vegetable oil a year — just about all of it imported.

Consumption of edible oil is around 17,500 tonnes a year, a figure growing by some 10 per cent annually.

Edible oil is used in the food industry. As an added-value product, it is to be found in stores as table margarine, in bakeries as cooking margarine, and on lunch tables as bottled or canned salad oil or mayonnaise.

Edible oil is also used extensively by commercial fryers like Watties, Kentucky Fried Chicken and General Foods.

The edible oils market is worth around $14 million before any value is added.

The edible oil market has continued to grow with other sectors of the food industry. But the industrial market — still reasonably healthy — has not been so successful.

Industrial vegetable oils are used mainly in the paint and building materials industries, which have fallen on less prosperous times recently.

Industrial users such as paint, plastics and hardboard manufacturers use about 7500 tonnes a year. This is predominantly soya bean oil — which forms the base of vinyl paint — with some maize, cotton seed, linseed and palm oil.

The value of our total vegetable oils imports is worth about $19 million a year fob.

Two local companies are in the extraction business on a modest scale.

NZ Starch Ltd of Penrose (part of the Watties stable) has an expelling plant where it recovers small tonnages of maize oil.

Abels Ltd — which operates a modern vegetable oil batch refinery at Newmarket — refines it for NZ Starch (Abels is also closely tied with Watties through Eta Foods Ltd, which is part-owned by General Foods Ltd).

The other extraction plant, which actually refines its oil, is Fletcher Agriculture of Dunedin.

Fletcher processes colza (rape seed oil). The Dunedin plant was originally set up to process locally grown linseed.

But Fletchers lost $200,000 on export sales of linseed oil and meal, despite Government export tax incentives.

As a division within Fletcher Holdings Ltd, Fletcher Agriculture does not have any equity capital. Its financing of operations is funded through bank credit lines and advances from Fletcher Holdings Ltd and interest is charged accordingly.

Fletchers wanted out in 1978 and offered the oil business for sale but there were no takers.

The company later embarked on an aggressive marketing campaign to win a slot for its Sunfield Fresh n' Pure on the table oils market.

Fletchers acknowledge that freight has been the killer in expanding the market, but says it is doing okay anyway.

Last year, Sunfield captured about 50 per cent of the South Island market and about 20 per cent of the Auckland market. Production this year is expected to be up 40 per cent and more than 1000 tonnes will be refined and packed for retail consumption.

Fletcher, like Abel, operates an economical batch refinery. This allows oils to be refined as and when they are required, in small quantities.

Kaipara Edible Oils Refinery at Helensville has a continuous refinery which must be operated in a minimum of five-day runs, and for most of the year to be economic.

KEOR's refinery can process about 22,000 tonnes of oil a year. But it's doubtful whether KEOR processed even 10 per cent of its capacity in the 12 months (to July) in which it has been operational.

KEOR's big hopes were pinned on the industrial users and large food processors for bulk-volume sales. Margarine was another tempting market.

But industry sources say most local paint users are importing oil direct from American refineries, where the difference in cost per tonne between crude and fully refined vegetable oil can be as low as $30 a tonne, depending on supply and demand. Yet the refining margin at KEOR (and not accounting for process losses of up to 7.5 per cent of volume) have been estimated by the company at $55 a tonne.

The American refineries are sited close to wharves with good access to the grain belt. Huge daily volumes reduce their costs accordingly.

But KEOR is nowhere near fitting into this league, and finds it difficult to compete on price.

Kaipara Foods Ltd — a subsidiary of Kaipara Dairy Company — introduced the Margee brand of margarine which it manufactured at Helensville.

To the year March 1980, the company processed 1067 tonnes of margarine. Of this, 148 tonnes was made for Burlands as Dixibell brand, 708 tonnes with Margee brand, and 211 tonnes was River Valley brand, owned by KEOR.

The accounts show that Kaipara Foods Ltd lost $110,568 in trading after capitalising $70,000 of Margee brand in establishment costs. Two months ago Kaipara Foods Ltd sold the Margee brand to KEOR "at a price sufficient to restore shareholders funds" according to the annual report. Kaipara Foods continues to pack Margee for KEOR.

But the margarine story is a sad one for the Kaipara family of companies.

"Brand identification" — the cost of launching Margee last year — amounted to $105,098. This is to be amortised over three years, according to Kaipara Foods Ltd notes to accounts.

The company spent $104,060 on "advertising", according to the manufacturing and profit statement, making a total of $174,060 spent on the promotion of Margee, which was sold off to KEOR before it was a year old.

But Kaipara Foods Ltd's real loss is not the $110,568. To this must be added the $70,000 of amortised "brand identification" costs to show the more realistic loss of $180,568 for the $2000 capital company.

The Whangarei Oil Extraction Co Ltd adds a new dimension to the operation of KEOR and Shrian Oskar.

Pundits in the vegetable oil industry on both sides of the Tasman have been saying since 1977 that KEOR will have a tough time staying in business. Its latest accounts showing accumulated losses of more than $1 million lend credence to that.

So news that Oskar was setting up an oil extraction plant in Whangarei (he is doing the same thing in Bunbury, Western Australia, and has made a similar proposal to the South Australia Government) has been greeted with near disbelief.

Kaipara Dairy Company and KEOR don't appear to be associated with the new venture.

It has a capital of $10,000, of which 9999 $1 shares are held by Oskar's Sunflower Investments Ltd, Monrovia, Liberia.

The remaining $1 share is held by KEOR solicitor Roger Craddock, of Holmden Horrocks & Co. Craddock acts for Oskar.

Holmden Horrocks is Kaipara Dairy Company's legal firm.

The directors of Whangarei Oil Extraction Co Ltd are Sir Geoffery Roberts (chairman of KEOR), Roberts farmer son David, Oskar's Bunbury manager, Englishmen Anthony Barber, and Craddock.

Presumably Craddock holds both the one share and a place on the board for Oskar.

There has been no official announcement of a close relationship, but both the Whangarei Oil Extraction Co Ltd and KEOR will need to work almost as one.

The oil extraction plant can't survive without Kaipara Edible Oils. On the other hand, if the oil extraction plant can't operate efficiently against the cost of imported oils (therefore upping crude oil costs to KEOR) then KEOR won't be able to survive with it.

The project has been launched in typical Oskar style. First you set up the plant using imported stocks, then you create a local industry, growing soya beans, which will take over.

Trouble is, in Australia and New Zealand where Oskar is doing this, the odds are stacked against soya bean cropping.

In New Zealand, soya bean trials have been a flop in the most promising areas — the Waikato, and Hawkes Bay. The strains of bean available don't measure up in tonnes per hectare to make them an economical proposition.

Even if they were, there is a problem of having sufficient area under seed to harvest economically.

Harvesting soya beans is expensive. In the United States harvesters cross state lines along vast soya cropping areas suitable for nothing else. Soya beans are grown on marginal land.

To service the Whangarei plant would require some 30,000 hectares of land nearby because of high freight costs.

Where is this land so close to Whangarei — thousands of hectares of relatively flat land on which the farmer can't make a buck from cattle or sheep?

That poses another problem. What farmer — particularly on rising dairy and lamb prices — will turn land over to an untried crop?

An Auckland investment banker summed it up: "The most economical place to grow soya beans in New Zealand is on cliff faces, because it's the cheapest land we've got".

In a nutshell, Whangarei Oil Extraction Company needs to extract around 18,000 tonnes of crude vegetable oil a year to make any money.

And how does it get rid of the 70,000 tonnes of soya and sunflower meal left over? New Zealand can't absorb anything like that amount (our cattle eat grass) and it cost Fletchers $200,000 in losses trying to export.

And what can KEOR do with 18,000 tonnes of vegetable oil, with the difficult experiences it is going through already?

There's no way soya beans or sunflower seeds can be shipped from the United States or Brazil, be processed half way around the world, and still compete in price with the imported oils.

The only answer, it seems, lies in tariff protection, which would upset a great many users.

Roberts says there is no way KEOR will ever seek such protection.

But there's no certainty that the Whangarei project will proceed.

Although contracts for the supply of plant and silos to be located near the Whangarei waterfront have been signed, *NBR* understands that no money has changed hands and that Roberts and the company are waiting for Oskar to show up with some deposit money.

Leasing

Buy or lease? If doubtful call in a tax expert

by Peter V O'Brien

YOU can lease almost anything you want in New Zealand these days, from plants and paintings to motor vehicles, computers, and paper machines (which may be the size of several houses).

Overaeas, as uaual, they have taken the leasing business further. A Florida orchardist recently got sick of a government agency telling him how much of his orange crop should go to the fresh fruit market, how much to orange juice processor and ao on. (Yes, not only Aucklend apple growers moan about the "orderly marketing" concepts of official agencies. The so-called home of free enterprise can be as tough on the entrepreneur es anything in this country).

The orchardist decided to lease hia 4500 trees to the public, for a modest annual sum. The lessor gets the crop each year as fresh fruit, ahipped to his nominated destination. The overall cost of the lease leaves the orchardist with a better return than if he sold part of the crop to the fresh fruit market, and met his commitment to the juice processors.

The lessee ohtains fresh fruit without going through the distribution chain, and "buys" it at a price lower than retail. Everybody wins, except the federal marketing orders of the American Agriculture Department.

The "lease-a-wife" scheme is another variation, but the people who dreamed up that businesa make sure that the wifely duties stop at the bedroom door, and are confined to hostessing, looking after a house, and similar activities.

Leasing in New Zealand began seriously when firms leased motor vehicles, concentrating on professional people and other self-employed.

The lease payments spread the capital cost of the car over an extended period, and remove the necesaity for the lessee to tie up money which, ia better used as working capital.

The business expanded rapidly in the late 1960s and 1970s, and lease agreementa now cover a wide range of capital items.

The computer industry, and branches of office equipment (photocopying, typewriters, answering equipment, and even furniture) have a thriving operation providing for the needs of the people who have better things to do than invest capital in plant and equipment.

The computer and office equipment market gives the lessee another advantage, because they are faced with recouping a large capital outlay on machines which can be obsolete before they are substantially written down in the booka.

Hiring is related to the "leasing" syatem, although a hire agreement usually omits the right to purchase the property at the expiry of the agreement at the written down figure. Unless the hire is for a short period (to satisfy the home handyman's weekend masochistic tendencies, for example) the agreement may be framed to continue as long as the hire payments are met. That is the basis of rental television, where sets leased back in 1974 or 1975 are still with the original hirers who have probably covered the cost of owning a set by now. They may prefer reguler weekly or monthly outgoings plus the guarantee of service and licence payments, without the problem of having to deal with it personally.

An inexhaustive list of the goods which can be leased or hired includes motor vehicles, television sets, earthmoving equipment, office machines, furniture, aircraft, buildings (including the "aale and leaseback" principle involving developers and financial institutions, particularly insurance companies and funds), saucers through to potplants.

And everyone who rents an office, or intends to stay in a house or flat for some time, is usually a party to a lease.

The size of the leasing industry can be seen from the published figures of the New Zealand Finance Houses Association, which accounts for more than 80 per cent of total finance company business.

The association's 1980 reports (see table one) contains the figures for leasing. *NBR* added in the percentage relationship.

Table One

March Year	1978	1979	1980
		$'000	
Vehiolee held for leaaing	41.6	41.5	53.7
Other leasing	23.1	37.2	58.3
Totel leesing	64.7	78.7	110.0
Leasing ee per cent of lolel assets	8.04	7.83	8.95

The jump in motor vehicles leasing between 1979 and 1980 appears to be partly the result of higher costs for vehicles, but also the slightly improved attractiveneas of leasing when the maximum depreciation was raised from $7000 to $8000.

The television market haa seen substantial growth in hiring, after a slow start.

Some years ago the industry suggested that New Zealanders were reluctant to hire, because they had difficulty in getting rid of the old habit that things should be owned, and failed to distinguish between "owning" an asset and "using" it.

Table Two gives the figurea for monochrome and colour television sets for the December years 1975 to 1979, with the oumbers owned and hired. The information is from the Abstract of Statistics.

Until the Government changed the laws on investment allowances a few years, the "leveraged" lease concept looked as though it would gain rapid support from large companies.

The "leverage" refers to the use of substantial borrowed funda, often raised offshore. The "owner" of the plant buys it from the overseas supplier, using funds raised overaseas or from a local bank. The lender may put up to 80-90 per cent of the cost, at the agreed rate of interest, which the owoer can claim for tax purposes. When the owner (usually a merchant bank) leses the plant, it can claim the total depreciation, although there is only a small capital involvement. The user of the equipment gets it at reasonable cost and close to 100 per cent financing.

The type of plant involved, and its cost, confines this type of transaction to the largest, most credit-worthy companies, because there is a high risk. There is basically no security.

If the lessee fails to make payment, the financier will take the property, leaving the lessor with the remainder after sale of the plant. Since the equipment is usually very specialised (sometimes "one-off", or near to it) sale can be a problem, with a possible shortfall.

These leases became less attractive when the tax laws on investment allowances were altered.

Tebla Two

Dacambar Yeer	Monochroma			Colour		
	Privately owned	Hired	Parcant Hired	Privately Owned	Hired	Percent Hired
1975	549,345	102,276	15.7	139,595	25,049	15.2
1976	459,880	83,088	15.3	233,290	45,235	16.2
1977	403,709	85,508	13.9	313,290	88,874	17.6
1978	330,799	50,635	13.3	383,558	98,098	20.4
1979	280,305	39,277	12.3	443,584	125,646	22.1
1980 (to May)	251,974	35,041	12.2	459,705	135,787	22.6

But tax is still one of the main attractions in leasing, although each lease decision has to be made in the light of the leasee's particularly circumstances, the nature of the asset, and any right to purchase. (It can be noted that the lease of a motor vehicle may not include a right to purchaae at the residual value, because that is deemed a breach of the hire purchase regulations, which limit the repayment period on vehicles).

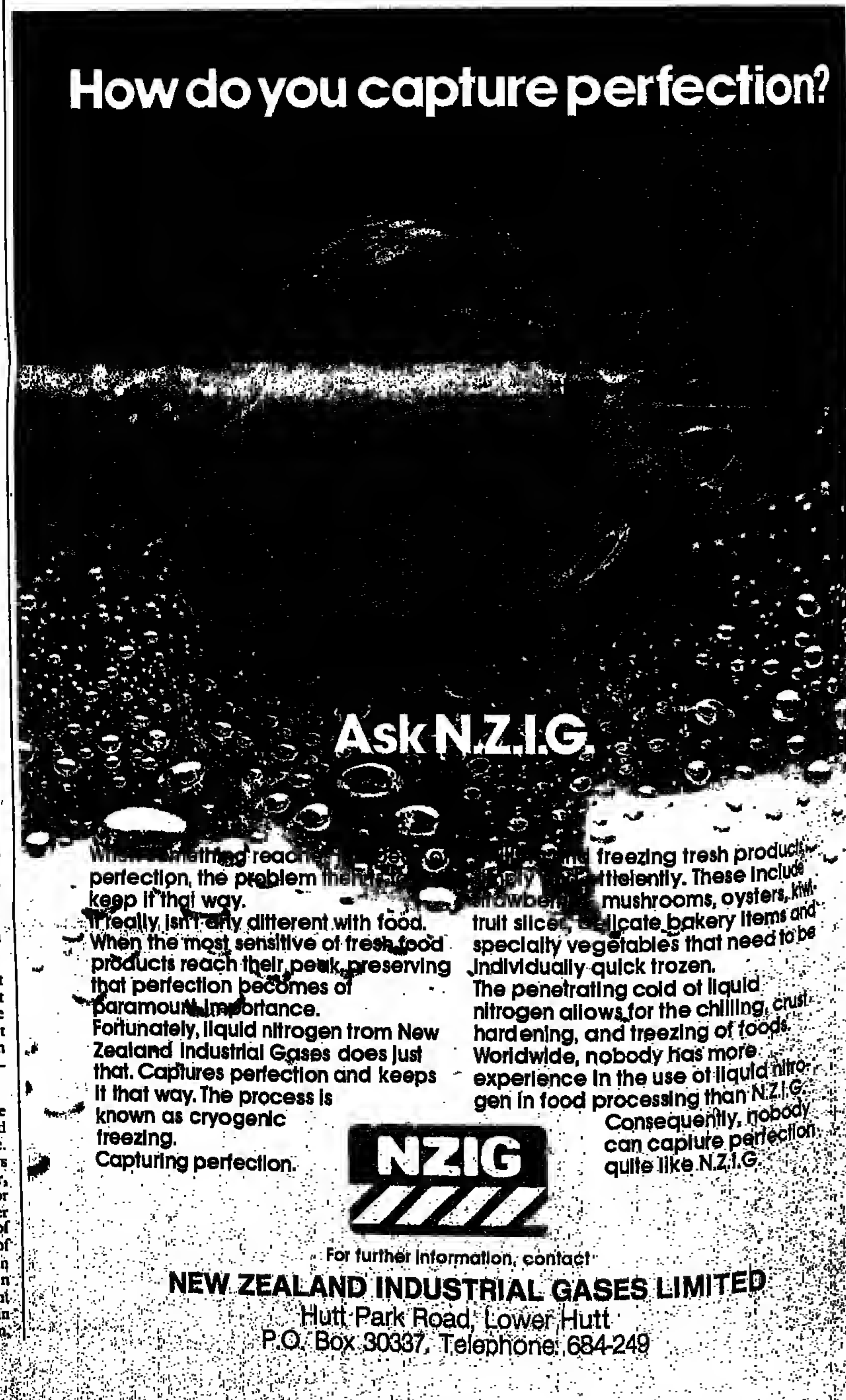
The total payments of rent under a lease are deductible for tax purposes, provided the depreciation factor is within Inland Revenue limits.

If an agreement contains a purchase clause, the lessee may deduct the payments provided they do not include ony portion of the residual purchase price.

But if the lessee buys the asset at the end of the day, and then resells it at a profit, the gain may be assessable income if a tax allowance has been given for the lease payments. the assessable amount will be the lower of either the profit or the payments previously claimed.

In short-term rentals or hire, the total payment is deductible, and the lessor is the only person concerned with question of depreciation writeback and so on.

The question whether to buy or lease resolves itself into a personal matter for each company or self-employed person. If in doubt, call in the tax experts, and look at liquidity flows.



Leasing

New swing to vehicle leasing in business sector

By Donn Anderaon

FULL tax deductibility and increasing pressure on working capital because of inflation is resulting in ao upswing of interest in the leasing of motor vehicles.

Ironically, despite severe governmental restrictions, current regulations make leasing a motor vehicle more attractive than buying for many self-employed or professional people. The higher the businessman's taxation rate the more favourable leasing can be.

In addition, the more expensive the car, the better it can be to lease rather than buy. Thus high priced luxury models like Mercedes Benzes, BMWs, Audis and Rovers suddenly take on a new attraction for business people to lease.

"There's no doubt there is more interest in vehicle leasing, particularly with dearer cars," says Jonathan Gooderham, manager of Auckland-based Coutts & Company which specialises in the sale of expensive, high class cars.

Finance companies are a little more guarded in discussing the expansion of vehicle leasing, although they indicate upward trends. "Leasing is becoming more used overall," says Dennis Cowl, assistant Auckland branch manager for Marac Holdings Ltd. "Overall awareness of both car and commercial vehicle leasing is much better than it was," he said.

As tax rates climb, the advantages become greater. Higher income people are taking an increasing interest in leasing, while businesses are considering the benefits.

Yet because the whole leasing question is far from simple in this country there has not, until now, been much promotion by the motor industry or finance houses.

Exact statistics on motor vehicle leasing are not available because cars and commercials are thrown in with other machinery and equipment which is leased. But last year it was estimated that $80 million worth of motor vehicles on New Zealand roads were leased.

Three variables — the cost of the car, the interest rate and the taxation rate — mean there are no clear-cut guidelines for leasing.

As Marac points out, a computer printout will reveal whether or not a lease deal is financially attractive.

"We try to help business people assess the long-term advantage of leasing. Obviously, if it doesn't suit him, it isn't in our best interests to recommend leasing," saya Dennis Lynch, marketing services manager for Marac. The customer may be better taking out a personal loan or buying the vehicle on hire purchase.

A recent study undertaken by Auckland-based consulting actuaries, shows that when the two factors of vehicle cost and an individual's taxation rate are combined, the benefits of leasing are magnified.

On today's figures, for example, a businessman with a taxation rate of 55 per cent thinking of purchasing a $12,000 car would have to invest the savings that could be made by leasing at only 2.9 per cent per annum for leasing to equate with buying. This percentage varies according to the time of year because of taxation. All leasing payments are deductible in the tax year in which they are made.

The $12,000 example was assessed on the basis that 100 per cent of the lease rentals would be tax deductible. Of course, it is not uncommon for only 80 per cent to 90 per cent of lease rentals to be tax deductible.

There is a clear definition between leasing cars, station wagons and commercial vehicles. No advance rentals are necessary for commercials and there is no maximum lease period, although in most cases finance companies insist on three years for light commercial vehicles and five-year terms for heavy trucks.

Unlike cars, there is no limit to the rate of depreciation, and the client has the facility to buy the vehicle at the end of the lease period. But be cannot take an option to buy the commercial vehicle during the lease.

Leasing of cars has become increasingly restrictive in the past nine years. Advance rentals of 50 per cent of the cost price of the vehicle have to be paid at commencement of the lease.

When lease regulations were imposed by the Economic Stabilisation (Motorcar hiring) Regulations in 1971, 15 per cent advance rentals were required. This rose to 25 per cent a couple of years later, and went to 50 per cent in 1976.

Car lease regulations insist new vehicles must not be older than three years at the end of the lease, used vehicles are not to be older than five years at the end of the lease, and renewal or extension of an agreement is not permitted. A residual value must be calculated on a 20 per cent diminishing value basis.

Kevin McGorman, from the marketing department of Broadlands Finance Ltd, points out the effect of the various controls that divide vehicle leasing into car/station wagon and commercial vehicles.

"Relative methods and advantages of lease and purchase differ," he says. "This occurs because of the widely differing cash flows arising out of the different aegments.

"The atandard method of comparison between lease and purchase is to prepare a summary of cash flows for each method of financing and then compare the cash flows (which occur at different times) by the use of a discounted cash flow," says McGorman.

"The use of a discounted cash flow is necessary because of the differing ways in which the cash flow pattern is built up."

Broadlands points out that under a vehicle lease, as payments are made (and appropriate allowance made for cash saving arising through tax deductions), the investment and therefore cash content builds up, reaching a maximum at lease end.

With purchase of a vehicle, however, the maximum cash content occurs immediately purchase is made and reduces by the tax savings obtained from depreciation. In effect the cash flows through lease are the inverse of those relating to purchase.

When comparing lease and purchase through discounted cash flows, the two categories of motor vehicle leasing become apparent. Whereas commercial vehicles compare favourably, the same does not apply to cars aod station wagons.

"The problem with cars is that the advance rental (or deposit) requirement tends to reverse in some way the advantages of leasing," says McGorman.

"While there still remains a saving of 50 per cent in capital requirements over purchase, the incentive is not as great.

"With the advent of budgetary controls on car pricea for depreciation purposes, a new advantage in car leasing has arisen and has become a major selling point," he says.

"To enable clients to continue leasing the finance companies have provided a lease where payments remain fully tax deductible. This was achieved by loading the lease by a margin to cover the loss of deductibility of the cost over $8000.

"This loading was at a 45c in the dollar being the tax rate of the finance or leasing company. However, because many of these leases were to professional people (or individual tax rates), they could gain substantial tax savings by being charged the excess over $8000 at 45c in the dollar (the financier's rate), but obtaining tax relief at up to 60 cents in the dollar, being the maximum individual rate," he says.

When this tax aaving is taken into account, the effective interest rate in the lease can be very low and, in many cases, nil.

Therefore, although the capital saving (in terms of funds outlayed) is only 50 percent if the balance is provided at nil or low interest rate, the proposition is still attractive.

Although a gross interest rate of around 27 per cent might indicate a finance company is charging high rates, this figure is meaningless.

Government's outdated depreciation limit of $8000 for a car becomes a relevant factor in leasing. Anything over this nominal sum is not tax-deductible to the finance company which has to replace this capital out of tax-paid income.

So a fairer assessment of interest rate is the net after-tax return to the finance company.

This is more likely to be around 20 per cent per annum. It is a set rate which remains unchanged during the lease period.

Lower rates can be found, and the New Zealand Motor Corporation is currently offering very attractive finance for its "Wheel Lease" scheme.

The company offers an interest rate of only 10 per cent on its new British Leyland vehicles with the exception of the Mini that has never really needed a sales incentive.

The scheme also excludes the strong-selling Honda range, but the top-of-the-range Rover SD1 is available for lease at a remarkable 8.5 per cent interest.

Residual value is important, particularly up in the luxury sector. At the end of the lease period, the vehicle is sold by the owner to a third paty and in most cases it is likely to sell for more than the residual value. The excess less normal reconditioning and selling expenses is then paid out to the lessee.

Take the case of a $50,000 Mercedes Benz.

At the end of a three-year lease its residual value is only $25,600 yet with the ravages of inflation and the longevity reputation of such a car, the vehicle may still be worth $50,000.

Finance companies say it is not uncommon for vehicles to be resold at their initial list price and, for most lessees, this excess is used as part payment for the lease of the next vehicle.

As with other aspects of leasing, the taxation angle is not straight forward when the tax man considers the difference between the sale price at the end of the lease and the book value depreciated at Inland Revenue Department rates.

The department will look closely at whether the difference could be classed as depreciation recovered, and an adjustment of tax may then be necessary.

CAR LEASING VERSUS BUYING (Break-evan retea)

PRICE OF CAR $	BUSINESSMAN'S TAX RATE 45 par cent	50 per cent	55 per cent	60 per cent
	Gross Intereat at which aevings muat be inveated			
8000	15.0	14.6	14.3	14.1
10,000	14.3	11.4	8.0	4.0
12,000	13.8	8.8	2.9	*
14,000	13.7	7.0	*	*
18,000	13.2	5.3	*	*
18,000	13.2	5.4	*	*
20,000	13.2	5.5	*	*
25,000	13.2	5.7	*	*
30,000	13.2	5.8	*	*

(*Danotae a negativa braek-evon interest rata. This meana thet any positiva return on elternale funde amployod makee leasing prefarable to buying. Facts lor this study: Leese tarm, 36 months, interest rate 20 par cent true per annum, car leasa written in June, annual belence date March 31, 100 per cent of tha rentals would ba tax deducible when paid. Figures courtesy Marac Holdinga Ltd)

Hardware prices prey on leasings ground

by Stephen Bell

IN many fields, leasing has an innovative character but in acquiring computer equipment it has long been an essential part. There are many companies which subsist entirely on primarily on purchasing computer equipment from the manufacturer and leasing it out.

But this is not the secure business it once was. The days of computer leasing as a whole might well be numbered. In contrast to most industrial plant and office equipment, the price of computing power is falling.

Purchase should therefore become possible to an increasing number of prospective computer users. But, major computer manufacturers, almost without exception, report a trend away from purchase and towards leasing and rental.

Paradoxically, it is the rapid advancement of computer technology and the fall in hardware prices which is encouraging the seemingly perverse trend to leasing. Why commit yourself to purchasing a machine, the argument goes, when there could be a better machine just around the corner?

Purchasing a computer could mean being stuck with a member of the previous generation of machines, while your competitors have spanking new models which provide twice the power for half the cost. In compensation, all they have had to accept is the financial penalty of climbing out of a lease a little early.

IBM 4300 series . . . users still distrustful of purchase

Even if you let your lease run its full period, the hardware vendor will, with any luck, still be there ready to take back its machine in exchange for a new model. A second-hand purchased computer, the real value of which has been reduced to almost zero by the emergence of the next generation can be a very difficult beast to dispose of.

New Zealand representatives of major computer makers insist that the trend to leasing has its advantages. Leasing provides a nice, steady income, compared with the unpredictable business of selling.

But manufacturers still complain about the shortage of the big purchase transactions and try, by shuffling the relativity of purchase and leasing, to encourage a trend back to purchase. The intelligent user can forecast emergence of new machines by watching the ratio between lease and purchase charges. When lease prices rise and/or purchase prices drop, users can bank on the beginning of a new "product cycle".

The last big jump, with the arrival of the IBM 4300 series and its rivals from the other companies, is nearly two years old, but users are still relatively distrustful of purchases. Users have become used to the technology's pace and the trend towards leasing has become a permanent fixture.

In New Zealand, curiously, the market is notably more angled towards purchase than in the world at large. A figure of 40 to 60 per cent of machines are leased (dependent on the size and price of the computer) compared to estimates to as high as 70 per cent leasing overseas.

It is difficult to explain this difference. One line of reasoning blames the high — the most popular word in the industry is "iniquitous" — 40 per cent sales tax on computer equipment. For most users, this tax must be paid in a lump sum, on receipt of the machine, even a leased machine.

Naturally, if the customers still have to make a large lump-sum investment either way, the chief advantage of the lease is gone, and they will begin to look more carefully at purchase.

In rare cases, a vendor or finance company has been willing to bear the financial load of the sales tax payments themselves and spread user's payments over the whole lease period.

Among the four leading hardware manufacturers one, ICL, claims to do no leasing at all — contracts are either purchase or rental. But even with ICL a rental customer is offered the opportunity to purchase after a certain period.

Of the others, two offer leases themselves, and NCR operates its entire leasing business through a finance company.

New Zealand finance companies in general, seem unwilling to take on the leasing of computers, and the third party leasing company, which makes its living entirely from the business, is an almost unknown species.

This hesitancy to particip[ate] in third-party leasing aris[es] partly from the fact that multi[-]national vendors cater well for the limited local market, and partly from the obstacle presented by the fast progress of technology. A hardware vendor, after all, knows when a new generation is coming and has the resources to make just use of returned hardware.

But there is little a finance company can do with a returned computer, except try to re-lease or sell it to someone else. If a new generation is flooding the market, customers for old hardware are few and far between.

The release of the IBM 4300 and the machines that followed precipitated a debacle in overseas computer leasing companies, who had budgeted for their machines to have a substantial "residual value" and found them virtually worthless.

Some companies had the forethought to insure the residual value of their machines. Naturally, in these cases the losses rebounded badly on insurance companies, and Lloyds of London suffered particularly heavy losses.

But despite the set-back, third-party computer leasing is far from being a dead business and some of the overseas computer leasing companies are beginning to make forays into the local market.

The manufacturers are unwilling to make confident predictions for the future of computer leasing as a whole. In the long term, it seems, it may drop off as hardware becomes cheaper; but many of the expenses associated with computers — like expensive people to program them — are becoming rapidly more of a drain on company finances.

Vendors, by adjusting prices can to some extent control the relative popularity of leasing and purchase. But the eventual decision to buy or lease depends on so many variable factors moving in different directions that it is not surprising that there is a reluctance to predict what will happen to the leasing market in computer hardware.

Renta - pictures adorn executive walls

by Peter Isaac

SUDDENLY works by contemporary artists are flourishing in offices all around Wellington.

A Helen Carkeek here, a Juliet Peter there, and a Michael Fowler somewhere else.

Their presence on office walls owes thanks, in large measure, to Renta-Picture, the organisation that has taken the tired prints away from the executive suites and put original art in their place.

For only $10 a month a business executive can have a piece of New Zealand art valued at $1000-plus or more. For say, $40 a month you can become a veritable patron of the arts, with four such paintings festooning your walls.

Renta-Picture has almost 1000 paintings for circulation. None are chocolate box. All fall into the category of serious New Zealand art.

Annabel Sinclair-Thomson, who assists Susan Austin in running the business, says that big law offices tend to go for the more contemporary art. The multinationals, in contrast, perhaps mindful of traditionally-minded overseas visitors, tend to stick the landscapes. Accountants, meanwhile, are branching out from the representational style, and dipping their toes gingerly into contemporary scenes by the likes of John Drawbridge.

Founded in 1970 by businessman John Calder, Renta-Picture pioneered an entirely new style of office service industry. In doing so it provided a dimension to displaying New Zealand art, a new way of marketing it.

A few executives, understandably, become quite attached to a painting from time to time and wish to buy it. They may do so, and Renta-Picture collects a mere 25 per cent commission — rather less than most galleries.

The costs involved in renting a painting are clear cut. For works up to $50 in value you will pay $20 for a four month rental. For paintings up to $100, a four month rental of $21, and so on.

Clients can choose their pictures as they are wandering through an art gallery. They are displayed in colour photographs in large catalogues which the executive can browse through to select their next four month art selection.

But there are dangers it seems. One or two business people who have made the transition from hardware store-art a little too quickly have found themselves in an awkward position when office visitors ask who painted such and such, and whether it's in oils, water colour, acrylic, and so on.

Renta-Picture does come prepared for this contingency, with full catalogued details of media and artist.

All the paintings are originals. There is a complete spread of artists. People like Peter Kemp, Helen Smith Serisin, George Genet, Jeanne McCaskill, Claire Jennings, and Stephen Green. Mayor Michael Fowler has 21 original paintings on circulation with Renta-Picture which are very popular.

The Renta-Picture catalogues give details of size, so the rent collector can design four monthly configurations without having to leave the office.

The whole question, like good art, has the virtue of simplicity. The catalogues are marked when a painting is out on loan, so that clients can see exactly what is available at any given time.

Construction firms seek bridge to beat inflation

THE heavy construction industry is attempting to recuperate after its most debilitating and destructive illness since the 1930s, and is going to be making massive cash demands in the next decade.

Development projects already announced promise a sustained workload; the first and most important ingredient in the medicine for restoring confidence.

But the construction industry, and in particular its capital intensive heavy construction sector, has special problems to solve.

Ways must be found to bridge the canyon that inflation has created between the value of the plant owned by the industry today, and the cost of replacing it.

Leasing will undoubtedly become more popular but there is a strong feeling within the industry itself and among its financiers that there will be no radical shift in emphasis.

The effect of inflation on the price of new equipment has been compounded by the competitive nature of the construction game whose players have tended not to increase charges in order to maintain a share of a cake that has got smaller.

In 1974, $1 million would have bought a construction fleet capable of building a residential subdivision — a couple of motorscrapers, a couple of large bulldozers, an excavator or two, and all the ancillary equipment.

Buying the equivalent fleet today would leave little change out of $3 million: two single deals this year, one involving a mobile crane, the other a bulldozer, have been worth in total only a little less than $1.5 million.

There have traditionally been two classes of contractors who have used different methods of financing equipment:

- Small-to-medium companies, employing less than 100 people, and the group worst hit by the recession, have favoured hire purchase deals.
- The large companies, most of which are subsidiaries of substantial industrial groupings, have tended to raise finance from within their own group's resources.

The big finance houses have traditionally handled about 75 per cent of the industry's demands, with the pool being topped up by dealer finance, banks and private sources. The UDC group has been the biggest lender in the field.

Leasing has not played a major role, although some financiers did promote the system when investment allowances of up to 40 per cent were available.

In those days the finance company, as the owner of the machine, was able to write off the allowances against its own tax liability. This loophole has since been closed and only the user of the plant can now claim the benefits that still exist in this area.

Leasing has come under closer scrutiny in recent times, particularly by the major construction companies contemplating deals involving items such as large capacity cranes, and multi-machine deals.

One of the most important reasons for the reluctance of financiers to lease heavy earthmoving equipment is that wear and tear may exceed depreciation rates allowed in a lease calculation by the Inland Revenue Department; usually 25 per cent in the first year and 20 per cent in later years.

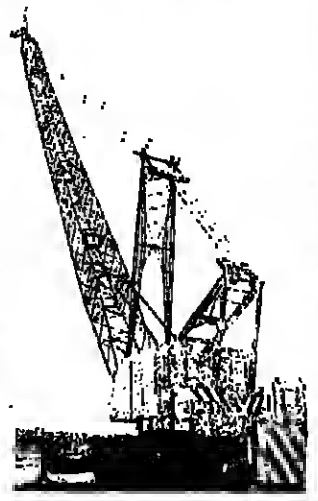
The problem is less marked in the area of ancillary equipment such as compressors, materials processing plant and cranes, which have a longer life expectancy.

Present hire purchase regulations do not require a deposit to be paid for construction equipment purchases, but most dealers and finance sources insist on a deposit of between 20 and 30 per cent for credit purposes.

This puts HP on a par with most leasing arrangements, where, while no deposit is traditionally paid, lessors may demand a 'good performance bond' or some other device to guard against possible loss.

UDC's chief loans manager, Gary Dobbs, says that he cannot see what would motivate a potential lender to entertain a lease agreement instead of a no deposit hire purchase agreement, in which the lessee is building equity in the equipment at a faster rate.

He also points out that a lease agreement denies a purchaser the protection contained in the Hire Purchase Act and other legislation; "There's no bloody rules at all," he says.



Resale value . . . something of a lottery.

Another factor that mitigates against the spread of leasing in the construction market is the volatile nature of the used equipment market.

It was only a few years ago that entrepreneurs were importing used equipment; that flow has been reversed and several ship loads of used equipment have left the country in the last 18 months, either for use on contracts won by New Zealand firms overseas, or for sale.

This outflow has put a premium on good used equipment while older or more dilapidated gear, tired after a long, hard life, is still heavily discounted in the marketplace because there is little if any work for it.

Thus the final valuation that takes place at the end of the lease agreement, to determine the market value of a machine as compared with its residual value in the books, becomes something of a lottery.

Leasing also offers an opportunity to expand business without having to increase borrowing or show a liability on the balance sheet, but this advantage is of most interest to the larger public companies.

Dobbs also warns that recent decisions by the United States Financial Accounting Standards Board have changed this situation and lease commitments must now be disclosed; similar action is likely in New Zealand before long.

The net result of such a move would be to produce a balance sheet that shows a liability without a corresponding asset, because the contractor does not own the plant. The contractor in that position may find that his bank would be wary about providing seasonal finance, an important aspect of contractors' operations.

The short-term leasing of new or second-hand equipment from dealers stocks is sometimes used by contractors to overcome a seasonal high spot, but it is not particularly common.

These agreements usually include a right of purchase clause that allows a large proportion of the rental payment to be set off against the purchase price.

For the construction industry today the real problem will be re-establishing realistic and economic pricing levels that will enable new equipment, where leased or on hire purchase, to be financed.

Any trend to leasing will be most evident among larger organisations but will be part of a balanced overview of the entire financing scene by a money-hungry industry.